

Michigan's Individual Income Tax

2000



Michigan Department of Treasury
Office of Revenue and Tax Analysis
July 2002

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TABLE OF CONTENTS

	<u>Page</u>
I. EXECUTIVE SUMMARY.....	1
Returns and Revenue.....	1
Property Tax Credit.....	1
Home Heating Credit	1
City Income Tax Credit.....	2
College Contribution Credit.....	2
Community Foundation Credit.....	2
Prescription Drug Credit	2
Homeless Shelter/Food Bank Credit.....	2
College Tuition Credit.....	2
Use Tax Payments.....	2
Tax Law Changes.....	3
II. INTRODUCTION.....	4
III. HISTORY OF THE MICHIGAN INDIVIDUAL INCOME TAX	5
IV. INCIDENCE OF THE INDIVIDUAL INCOME TAX.....	6
V. INCOME TAX CREDITS	14
Property Tax Credit.....	14
Home Heating Credit	16
Prescription Drug Credit	17
City Income Tax Credit.....	17
College Contribution Credit.....	18
Community Foundation Credit.....	18
Homeless Shelter/Food Bank Credit.....	18
College Tuition and Fees Credit.....	18
Other Credits	19
VI. DESIGNATED CONTRIBUTIONS	20
VII. INTERSTATE COMPARISONS	21
VIII. GEOGRAPHIC PATTERN OF TAX AND CREDITS	24
IX. FEDERAL INCOME TAX INTERACTION.....	25
Summary of Federal Tax Law Changes.....	25
X. PUBLIC ACTS – INCOME TAX	29
1999.....	29
2000.....	29
2001.....	30
XI. EXHIBITS 10 THROUGH 26.....	31

LIST OF EXHIBITS

<u>Exhibit</u>	<u>Page</u>
1 Fifteen-Year History of Income Tax Rates and Revenue	7
2 Annual Collections from Individual Income Tax	8
3 Individual Income Tax - Effective Tax Rate.....	8
4 Effective Income Tax Rate, 2000.....	13
5 2000 Individual Income Tax Credits.....	15
6 Returns Designating Contributions	20
7 State Individual Income Taxes for FY 2000 - Per Person and Percentage of Personal Income	22
8 State Income Taxes Per Person - Great Lakes Region - FY 2000	23
9 State Income Taxes - Percentage of Personal Income - Great Lakes Region - FY 2000	23
10 Effective Rate of the Michigan Individual Income Tax, 2000.....	32
11 Breakdown of Upper Income Filers - Individual Income Tax, 2000.....	33
12 Tax Base Deductions as a Percentage of AGI - Individual Income Tax, 2000.....	34
13 Distribution of Personal Exemptions Claimed on 2000 Individual Income Tax Returns	35
14 Distribution of Special Exemptions and Child Deductions Claimed on 2000 Individual Income Tax Returns	36
15 Distribution of Credits - Individual Income Tax, 2000.....	37
16 Four-Year Comparison of Individual Income Tax Credits	38
17 Distribution of Property Tax Credits Claimed - Individual Income Tax, 2000.....	39
18 Distribution of Senior Citizen Property Tax Credits by Household Income - Individual Income Tax, 2000	40

<u>Exhibit</u>		<u>Page</u>
19	Distribution of General Property Tax Credits by Household Income - Individual Income Tax, 2000	41
20	Distribution of Home Heating Credits by Household Income - Individual Income Tax, 2000	42
21	2000 Income Tax Collections by County.....	43
22	2000 Income Tax Data by County	45
23	Average Annual Individual Income Tax Rates	47
24	Average Adjusted Gross Income by County, 2000.....	48
25	Average Property Tax Credits by County, 2000	49
26	Growth in Michigan Income, 1999 - 2000.....	50

I. EXECUTIVE SUMMARY

Returns and Revenue

For tax year 2000, Michigan's personal income tax generated more than \$6.3 billion in state revenues after all credits and refunds were paid.

Net revenue decreased \$29.9 million (-0.5 percent) from 1999 levels as a result of the drop in the tax rate from 4.4 percent in 1999 to 4.2 percent in 2000. Adjusted gross income (AGI) increased by \$13.6 billion (6.1 percent) from 1999 to 2000.¹

More than 4.5 million returns were filed for the 2000 tax year, approximately 96,800 (2.2 percent) more than the previous year.

Although the personal income tax was levied at a nominal flat rate of 4.2 percent in 2000, the effective tax rate varied from negative 10.1 percent for filers with an AGI under \$2,000 to positive 3.3 percent for taxpayers with an AGI between \$85,000 and \$100,000. The overall effective tax rate was 2.7 percent. The negative effective rates for lower incomes arise because some taxpayers receive net payments from the state, due principally to the refundable credits for property taxes and home heating expenses.

Property Tax Credit

About 1.2 million Michigan homeowners, renters, and farmers received \$516.6 million in property tax credits, including farmland preservation credits, for 2000. The average property tax credit was \$442.31. Excluding farmland preservation credits, the average property tax credit for tax year 2000 was \$428.70. The total amount of property tax credits, including farmland preservation credits, increased by almost \$29.7 million (6.1 percent) with 23,300 more taxpayers benefiting compared to tax year 1999.

Senior citizens received about \$220.1 million in homestead property tax credits, a decrease of \$1.9 million from tax year 1999. For the almost 364,200 senior citizens receiving homestead property tax credits, the average credit was \$604.37.

Home Heating Credit

Home heating credits totaled \$59.2 million for tax year 2000 with almost 317,500 households qualifying for an average credit of \$186.34. Home heating credits increased \$8.6 million from 1999 while approximately 10,000 additional taxpayers claimed the credit.

¹The AGI above includes returns reporting a negative AGI totaling a negative \$2.679 billion. AGI data for these returns were not available prior to 1997. The data for negative AGI returns are included throughout this report unless otherwise noted.

City Income Tax Credit

In 2000, city income tax credits were claimed by more than 1 million taxpayers amounting to \$38.6 million in total credits. This was an increase of \$562,500 from the prior year, with an additional 7,700 taxpayers claiming the credit.

College Contribution Credit

Michigan taxpayers claimed \$24.6 million in credits for contributions to Michigan colleges, libraries, museums, and public broadcasting stations for tax year 2000. This was an increase of almost \$1.3 million over tax year 1999, with 9,700 additional taxpayers claiming this credit.

Community Foundation Credit

For tax year 2000, 27,000 taxpayers claimed \$2.5 million in community foundation credits. This was an increase of 3,300 taxpayers and \$328,000 in credits over 1999.

Prescription Drug Credit

Taxpayers claimed 29,100 prescription drug credits totaling \$14.8 million for tax year 2000. This was almost a \$1.0 million decrease from the prior year total with 2,300 fewer taxpayers claiming the credit.

Homeless Shelter/Food Bank Credit

Taxpayers claimed 180,400 homeless shelter/food bank credits totaling \$13.7 million for tax year 2000. Compared with tax year 1999, this represented an increase of \$1.4 million with an additional 12,700 taxpayers claiming a credit.

College Tuition Credit

For tax year 2000, 60,400 taxpayers claimed \$5.6 million in tuition credits. Compared with tax year 1999, this was an increase of \$871,700 with 7,500 additional taxpayers claiming a credit.

Use Tax Payments

Starting in tax year 1999, taxpayers were allowed to remit use tax payments along with their personal income tax returns. In 2000, that benefited 79,627 taxpayers, who paid almost \$3.0 million in use tax.

Tax Law Changes

Public Acts (PA) 1 through 6 of 1999 reduced the Michigan income tax rate over a period of five years from 4.4 percent to 3.9 percent, beginning in tax year 2000. The tax rate for 2000 was further reduced to 4.2 percent by PA 40 of 2000. There will also be an increase in the percentage of income tax revenues earmarked to the School Aid Fund (SAF). Since October 1, 1996, 23 percent of gross collections before refunds have been allocated to the SAF. Beginning January 1, 2000, the percentage of gross collections earmarked to the SAF will equal 1.012 percent divided by the income tax rate. The new formula will increase the percentage of income tax revenues allocated to school aid as the income tax rate declines, and ensure that the income tax rate cut reduces General Fund/General Purpose (GF/GP) revenues, but not SAF revenues.

Effective tax year 2000, several credits, exemptions, and a deduction were increased and expanded,² and a new deduction and credit were created.³ These changes, along with the rate cut, resulted in lower income tax collections in tax year 2000.

²Existing exemptions, deductions, and credits that were increased or expanded: the homestead property tax credit for certain disabled filers (PA 41 of 2000), the child deduction (PA 42 of 2000), the special and certain dependent exemption (PA 301 of 2000), the home heating credit (PA 169 of 2001).

³New deduction and credit: the deduction for contributions to the Michigan Education Savings Program (PA 162 and 163 of 2000), the adoption credit (PA 393 and 394 of 2000).

II. INTRODUCTION

This report summarizes information regarding the Michigan individual income tax for tax year 2000. It is based on returns filed and processed in calendar year 2001.

Section III reports the history of the Michigan individual income tax. Section IV presents an overview of the number of taxpayers, revenue collections, refunds, and effective tax rates. Section V details the major income tax credits, while Section VI discusses the designated contributions listed on the personal income tax form. Section VII compares Michigan's personal income tax to the income taxes levied by other states. Section VIII lists the geographic pattern of revenue and credits by county.

The Michigan income tax builds on the federal income tax, specifically federal AGI. As such, changes in federal law that alter the calculation of AGI will generally have an impact on the Michigan income tax base and revenues. Section IX summarizes the significant changes in federal income tax law since the landmark Tax Reform Act of 1986 and how those changes will affect Michigan's income tax base. Section X summarizes the Michigan Public Acts of 1999, 2000, and 2001 that amend the Michigan Income Tax Act.

Section XI contains tables and charts presenting detailed data on returns, exemptions, credits, revenue, and effective tax rates.

III. HISTORY OF THE MICHIGAN INDIVIDUAL INCOME TAX

The Michigan individual income tax became effective on October 1, 1967, under PA 281. The tax was enacted to help eliminate a state budget deficit. When originally enacted, the state income tax was levied at 2.6 percent and allowed a \$1,200 exemption per person. On August 1, 1971, the personal income tax rate was raised to 3.9 percent. In 1973, the personal exemption was raised from \$1,200 to \$1,500, and the homestead property tax credit was established. The income tax rate rose to 4.6 percent on May 1, 1975, to replace revenue lost from the exemption of food and prescription drugs from the state sales tax. Although scheduled to be rolled back to 4.4 percent on July 1, 1977, the state income tax rate was permanently set at 4.6 percent in 1977.

Michigan suffered from budget deficits in the early 1980s due to an economic recession. In response, the state income tax rate was temporarily raised to 5.6 percent between April 1 and September 30, 1982. In 1983, the income tax rate was increased to 6.35 percent. In 1984, the income tax rate was lowered to 5.85 percent and to 5.33 percent in 1985. In 1986, the rate was lowered back to 4.6 percent. The rate was lowered to 4.4 percent on May 1, 1994, following the passage of the property tax reform package known as Proposal A. For the 1995 tax year only, the Headlee Amendment Refund reduced the income tax liability of all Michigan taxpayers by 2.0 percent. Effective January 1, 2000, the income tax rate declined to 4.2 percent and remained at that rate throughout 2001. Beginning in 2002, the income tax rate will decline by 0.1 percentage point for three years, bringing the rate to 3.9 percent in 2004 and thereafter.

Since the Michigan income tax is based on federal AGI, changes in federal tax law can affect Michigan income tax collections. The broad changes in AGI effected by the Tax Reform Act of 1986 significantly increased the Michigan income tax base. In response, the personal exemption was gradually increased from \$1,500 in 1986 to \$2,100 in 1990, a 40 percent overall increase. PA 2 of 1995 increased the personal exemption to \$2,400 for tax years 1995 and 1996. The exemption increased to \$2,500 in 1997 and PA 3 of 1995 indexed the personal exemption to inflation with the personal exemption rounded to the nearest \$100 after tax year 1997. PA 86 of 1997 increased the personal exemption by an additional \$200 starting in tax year 1998.

The Michigan individual income tax is a flat rate tax. The Michigan Constitution prohibits graduated income tax rates. Proposals to allow graduated rates were defeated by voters in 1968, 1972, and 1976. A degree of progressivity is achieved with exemptions and credits, such as the homestead property tax and home heating credits. These provisions help to make the tax less burdensome on lower income taxpayers.

A portion of income tax revenues is earmarked to the SAF with the remainder distributed as GF/GP revenues. Beginning in fiscal year 1996-97, 23 percent of gross income tax collections were statutorily allocated to the SAF with the remainder of net income tax revenue allocated to GF/GP. The percentage of gross income tax collections earmarked to the SAF will change for tax years beginning after 1999 to equal 1.012 percent divided by the income tax rate. For tax year 2000, the lower tax rate of 4.2 percent resulted in the earmarking percentage rising to approximately 24.1 percent.

IV. INCIDENCE OF THE INDIVIDUAL INCOME TAX

The Michigan individual income tax is based on federal AGI with additions (principally interest on obligations issued by other states) and subtractions (including income from U.S. Government bonds, military pay, social security benefits, most pension income, and income attributable to another state). In 2000, a \$2,900 per person personal exemption was allowed, while an extra \$1,800 exemption was provided for senior citizens, filers with certain disabilities, and filers receiving at least 50 percent of their AGI from unemployment compensation. The child exemption was increased to \$600 per child age 18 years and under. Credits were provided for property taxes, city income taxes, taxes paid to another state, home heating expenses, tuition paid to qualified Michigan colleges, and contributions to Michigan colleges, community foundations, and food banks.

For tax year 2000, more than 4.5 million MI-1040 returns were filed, 96,800 more than in 1999. An additional 271,283 “credit-only” returns were filed for 2000. These returns claim only a refundable tax credit, such as a property tax, prescription drug, or home heating credit, without filing an MI-1040. For tax year 2000, 2,760 returns claimed only a prescription drug credit, 48,496 returns claimed only a home heating credit, 54,621 claimed only a property tax credit, and 76,908 claimed a combination of the refundable credits.

The personal income tax generated more than \$6.3 billion in net revenue for tax year 2000, which is total revenue after all credits and refunds are paid. Income tax revenues decreased \$29.9 million (-0.5 percent) from 1999. The decrease in income tax revenues was due primarily to the rate reduction, from 4.4 percent in 1999 to 4.2 percent in 2000. AGI increased by \$13.6 billion (6.1 percent) from 1999 to 2000. The increase in the general price level (3.4 percent in 2000) also contributes to higher income tax revenues.

Exhibit 1 (see page 7) presents a historical comparison of income tax rates and revenues. The number of income tax returns and tax revenues both generally increase when the economy expands and decrease during a recession, such as in 1991. Changes in AGI reflect both economic growth and changes in the definition of federal AGI. For example, ending the 60 percent deduction for capital gains and including all unemployment benefits increased AGI beginning in 1987.

Even though the nominal personal income tax was levied at a flat 4.2 percent in 2000, exemptions and credits helped to lessen the relative burden on taxpayers with lower AGIs. As shown in Exhibits 10 and 11 (see pages 32 and 33), the effective tax rate varied from negative 10.1 percent for taxpayers in the \$0 - \$2,000 AGI group, to positive 3.3 percent for taxpayers with an AGI between \$85,000 and \$100,000. Overall, the effective tax rate was 2.7 percent rather than the nominal rate of 4.2 percent. Taxpayers with AGIs of less than \$10,000 on average received net payments from the state, mostly due to the refundable credits for property taxes and home heating expenses. The effective rates in Exhibits 10 and 11 were calculated before the deduction of the farmland credit and the prescription drug credit, because the distribution of these credits by AGI is not available. In 2000, farmland credits totaled \$19.0 million and prescription drug credits totaled \$14.8 million. Subtracting these credits reduces the effective rate by a marginal amount. The average effective tax rate in 2000 decreased to 2.7

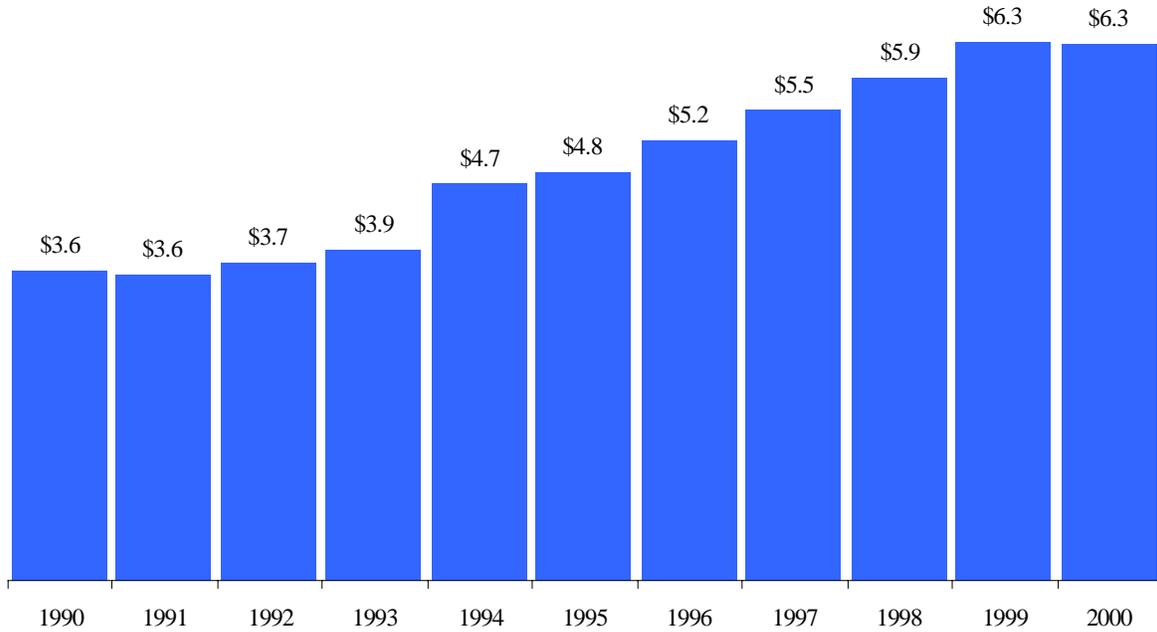
percent, compared to an average of 2.9 percent calculated for the 1995-1999 period, when the tax rate was 4.4 percent. Exhibits 2 and 3 (see page 8) report net revenue collections and average effective rates, respectively.

Exhibit 1
Fifteen-Year History of Income Tax Rates and Revenue

<u>Year</u>	<u>Number of 1040s Filed</u>	<u>Adjusted Gross Income</u>	<u>Average AGI</u>	<u>Nominal Rate</u>	<u>Average Effective Rate</u>	<u>Revenue</u>
1986	3,729,300	\$96,915,547,900	25,988	4.60%	3.04%	\$2,942,762,400
1987	3,763,900	103,933,417,600	27,613	4.60%	3.01%	3,127,237,800
1988	3,880,300	116,315,971,600	29,976	4.60%	2.95%	3,436,724,700
1989	3,977,900	124,400,414,100	31,273	4.60%	2.88%	3,579,951,000
1990	4,022,300	127,897,387,600	31,797	4.60%	2.85%	3,647,260,200
1991	4,011,600	131,533,587,500	32,788	4.60%	2.74%	3,607,799,000
1992	3,984,600	134,802,283,400	33,831	4.60%	2.77%	3,730,007,100
1993	4,034,000	141,599,188,400	35,101	4.60%	2.75%	3,888,847,900
1994	4,123,200	153,895,394,200	37,324	4.47%	3.03%	4,668,579,100
1995	4,214,300	167,307,933,535	39,700	4.40%	2.87%	4,794,937,300
1996	4,260,200	180,087,338,060	42,272	4.40%	2.88%	5,177,919,400
1997	4,308,575	190,806,002,405	44,285	4.40%	2.90%	5,540,653,500
1998	4,350,006	205,229,640,000	47,179	4.40%	2.88%	5,919,624,100
1999	4,414,720	222,092,788,315	50,307	4.40%	2.86%	6,343,222,500
2000	4,511,561	235,714,626,207	52,247	4.20%	2.68%	6,313,315,900

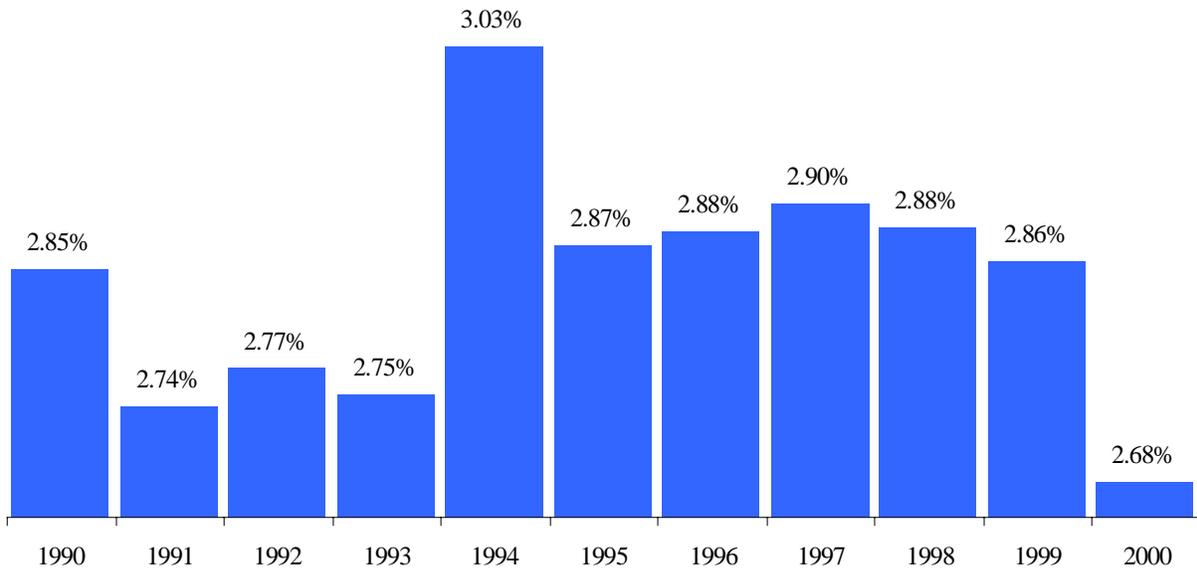
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 2
Annual Collections from Individual Income Tax
(billions of dollars)



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 3
Individual Income Tax
Effective Tax Rate



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 12 (see page 34) details the effects of the personal exemption, various adjustments, and credits on the distribution of the Michigan income tax burden. The personal exemption and property tax credit were the major provisions that reduced the effective tax rate. In addition, the personal exemption, property tax credit, and home heating credit make Michigan's income tax more progressive, since these provisions decline as a percentage of AGI as income increases. The nonrefundable credits, which include the city income tax, college tuition, and college contribution credits, have a more proportional effect on income. Exhibit 4 (see page 13) reveals the influence of the various exemptions and credits on the effective tax rate and illustrates the data in Exhibit 12. As a percentage of income, the \$2,900 personal exemption and property tax credit benefit lower income taxpayers the most, while reducing the effective tax rate for all taxpayers.

Michigan taxpayers claimed almost 8.8 million personal exemptions for 1999. Since the total exemption amount for some taxpayers is greater than their income, not all exemptions were used at lower income levels. In the lowest income groupings, the exemptions and child deductions offset all income. As noted in Exhibit 10 (see page 32), there were an estimated 8.7 million effective personal exemptions, i.e., exemptions that actually offset income. The effective exemptions for 2000 were calculated assuming all personal exemptions, special exemptions, and all child deductions were equally likely to offset taxable income. In years prior to 1999, the value of the special exemptions was included in the calculation of the number of effective personal exemptions, resulting in a higher estimate than the 2000 total.

Michigan taxpayers claimed over 900,000 special exemptions for tax year 2000. About 90 percent of the special exemptions were claimed by senior citizens. Michigan families also claimed 2.5 million deductions for children age 18 and under. Exhibits 13 and 14 (see pages 35 and 36) present distributions of all the exemptions claimed for tax year 2000 by income group. The number of special exemptions or child deductions that actually offset taxable income for each income group can be estimated by dividing the number of effective exemptions listed for that income group in Exhibit 10 (see page 32) by the number of claimed exemptions, and then multiplying that quotient by the number of exemptions/deductions in Exhibit 14 (see page 36). For example, the number of effective deductions for children age 18 and under in the \$30,001 to \$35,000 income group would be estimated by dividing 444,633 by 453,596 and then multiplying the result (0.9802) by 118,107. The result is an estimate of 115,773 effective deductions.

Married taxpayers filing jointly pay more than 70 percent of the Michigan income tax. Married couples tend to be older and earn higher wages, due to greater accumulated human capital. Human capital includes formal education plus skills acquired through work experience and on-the-job training. Couples also have an additional potential worker. The Michigan income tax does not have a "marriage penalty" or "marriage bonus" as potentially exists with the federal income tax. The following table summarizes the distribution of Michigan returns and net tax liability by filing status. Note that the total tax liability does not include refundable income tax credits claimed by individuals not required to file a Michigan income tax return.

2000 Income Tax Return Distribution by Filing Status

<u>Filing Status</u>	<u>Number of Returns</u>	<u>Adjusted Gross Income</u>	<u>Total Tax Liability</u>
Single	2,561,096	\$68,353,576,817	\$1,704,378,155
Married filing jointly	1,863,597	163,165,933,501	4,613,119,578
Married filing separately	62,641	3,304,948,888	72,322,849
Status not reported	<u>24,227</u>	<u>890,167,001</u>	<u>21,211,206</u>
Totals	4,511,561	\$235,714,626,207	\$6,411,031,788

The Michigan income tax is paid almost exclusively by Michigan residents. Non- or part-year residents pay less than 3 percent of the income tax. The table below summarizes the distribution of Michigan returns and net tax liability by residency. While nonresidents report \$22.6 billion in AGI, they claim subtractions totaling \$21.5 billion, mostly for income not taxable in Michigan.

2000 Income Tax Returns Distribution by Residency

<u>Residency</u>	<u>Number of Returns</u>	<u>Adjusted Gross Income</u>	<u>Total Tax Liability</u>
Resident	4,341,608	\$207,431,026,661	\$6,225,485,735
Part-year resident	94,956	5,703,194,087	101,446,669
Nonresident	<u>74,997</u>	<u>22,580,405,459</u>	<u>84,099,384</u>
Totals	4,511,561	\$235,714,626,207	\$6,411,031,788

Exhibit 26 (see page 50) presents estimates of the growth of Michigan personal income from 1999 to 2000. The U.S. Bureau of Economic Analysis prepared these estimates. While personal income grew 5.2 percent overall, the strongest growth was in the adjustment for residence (11.7 percent), followed by growth in dividends, interest, and rent income (7.4 percent), and wage and salary disbursements (5.4 percent).

The Michigan tax data overstate the aggregate effective tax rate, since taxpayers who itemize deductions on their federal returns may deduct their state income tax payments. For tax year 2000, 35.8 percent of Michigan taxpayers itemized deductions on their federal income tax

returns.⁴ With federal deductibility, taxpayers offset part of their state income tax with a lower federal tax liability. For example, taxpayers in the 28 percent federal income tax bracket who itemized would have up to 28 percent of their state income tax offset by lower federal income tax liability. Federal deductibility provides greater benefits to taxpayers with higher incomes, since higher income people are both more likely to itemize their deductions and face higher marginal tax rates. For 2000, 94 percent of Michigan taxpayers reporting an AGI of \$100,000 or more itemized their deductions, while 41 percent of taxpayers with an AGI between \$20,000 and \$75,000 itemized. While providing relief for some taxpayers, federal deductibility reduces the progressivity of the Michigan income tax.

Michigan income tax revenues are slightly income inelastic. Elasticity is a concept economists use to describe the responsiveness of one variable, in this case net tax revenues, to changes in another variable, in this case income. If tax revenues are inelastic, revenues on average grow at a slower rate than income. An inelastic tax is also less volatile than the business cycle and thus provides a stable source of financing for government operations. The income elasticity of tax revenue is equal to the percentage change in tax revenues divided by the percentage change in income.

A flat rate income tax like Michigan's with no exemptions or credits should theoretically have an income elasticity equal to exactly one. Exemptions and credits will result in the measured elasticity being potentially higher or lower than one. In general, a flat rate tax will be less elastic than a graduated-rate tax like the federal income tax. With a flat rate tax, tax liability for most taxpayers increases proportionally to an increase in income. With increasing marginal tax rates, tax liability increases more rapidly than income as income begins to be taxed at progressively higher rates.

A simple calculation will hopefully clarify the concept of elasticity. In Exhibit 1 (see page 7), net income tax revenues increased by 7.16 percent from 1998 to 1999 while total AGI increased by 8.22 percent over the same period. This resulted in an elasticity estimate of 0.871. This means that a 10 percent increase in income will, on average, increase tax revenues by 8.71 percent. If we were to do the same calculation using 2000 data, the reported increases of net income tax revenues and of AGI would result in a calculated elasticity of -0.077 , suggesting that a 10 percent increase in income will result, on average on tax revenues declining 0.7 percent. The problem with the calculated result in 2000 is that the net income tax revenue reflected not only the change in AGI, but also the increase in several exemptions, and the rate cut, unlike in 1999, when the exemption amounts and tax rate were unchanged from 1998. For example, adjusting the 2000 net revenue number to take into account the impact of the rate cut,⁵ net revenues growth would have increased by about 4.78 percent, resulting in a calculated elasticity

⁴Information on itemized deductions was obtained from the Internal Revenue Service, Individual Tax Statistics on State Income (04-17-02 Michigan, Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2000. Expanded Unpublished Version).

⁵For a rough estimate of net revenues without the rate cut, the taxable income was multiplied by the old tax rate of 4.4 percent, then the product was subtracted by the amount of credits claimed in tax year 2000. Note that this estimate does not take into account the change in the amount of certain credits that would likely be higher under a higher tax rate.

of 0.779 of a percentage point. However, this number is still lower than the 1999 calculated elasticity, because the 2000 net revenue growth did not take into account the increase in the exemptions. In order to take into account the impact of the exemptions increases and the rate cut, another method of estimating elasticity is recommended.

Regression analysis provides a more thorough method of estimating the income elasticity of net income tax revenues. It allows the investigator to isolate the effect of changes in income on tax revenues by controlling for other variables that influence tax collections, such as changes in the personal exemption or tax rate. Regression analysis of Michigan income tax collections from the fourth quarter of 1977 through the fourth quarter of 2000 results in an estimated elasticity of 0.903. This is based on net quarterly income tax collections and quarterly personal income as reported by the Bureau of Economic Analysis. Although the Michigan income tax is based on federal AGI, quarterly personal income is the best available proxy given that AGI is not available on a quarterly basis.

One problem with using personal income as a proxy for AGI is that the Bureau of Economic Analysis excludes capital gains from its estimates. Using personal income with this omission will tend to increase the elasticity estimate, because while tax revenues are fully included the absolute value of the growth rate of income will be understated. Capital gains tend to be more volatile than other income sources (e.g., wages, interest, and pensions) so their exclusion will make the growth of the personal income variable lower than the growth AGI in good times and higher in bad times. Therefore, it may be argued that the “true” elasticity is less than 0.903 and that the Michigan income tax is even less elastic than estimated above. A new estimate was obtained by adding quarterly estimated annual capital gains realizations to quarterly personal income. The regression equations were then re-estimated using the new income measure. The new estimates are slightly lower (0.897), consistent with the hypothesis that using personal income overstates the true elasticity.

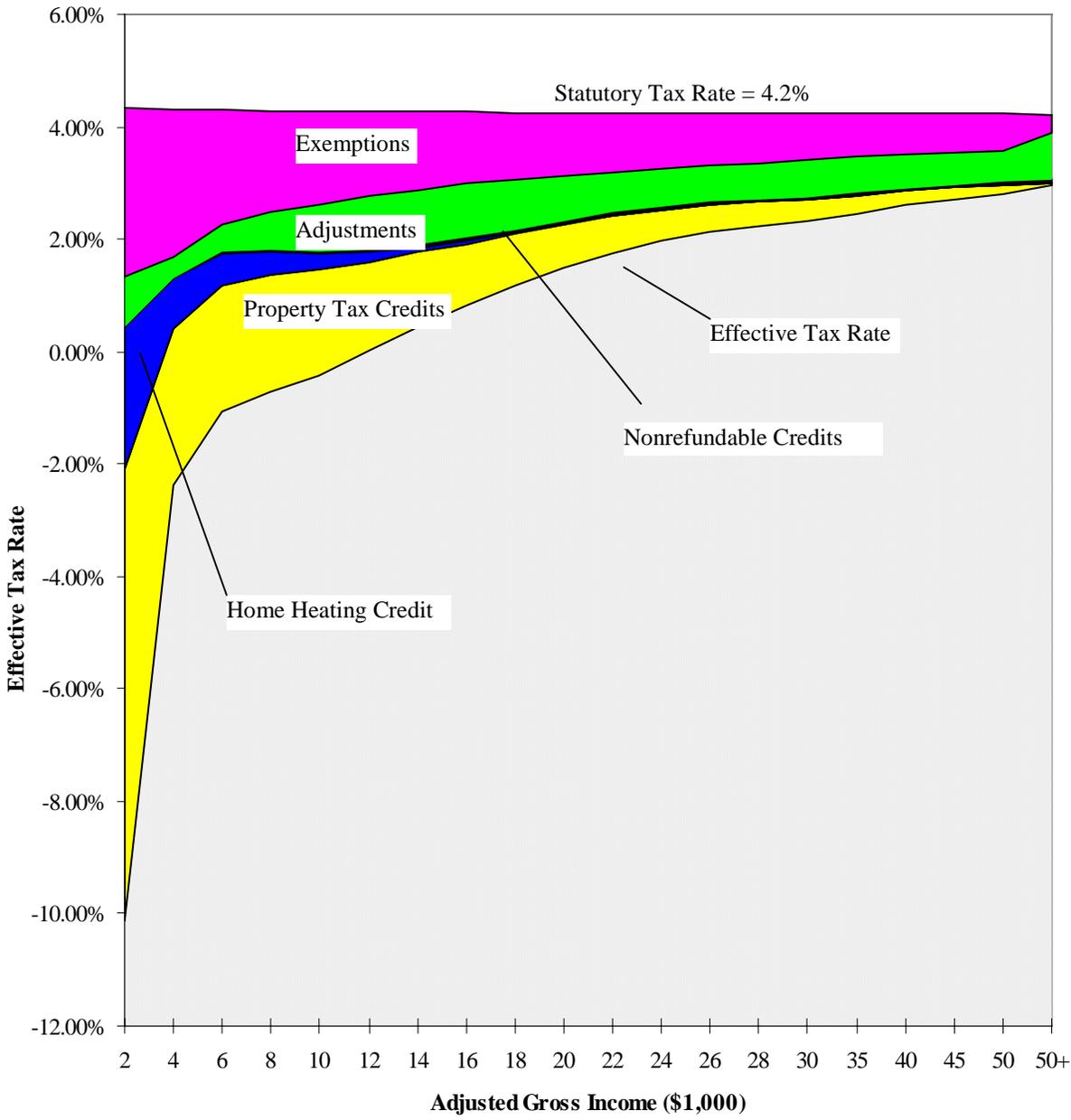
Use Tax Payments

A taxpayer owes use tax when he or she purchases tangible personal property, either for use, consumption, or storage in Michigan, from companies that do not collect Michigan sales or use tax. This includes mail order and Internet purchases as well as purchases while traveling in other states, or foreign countries. In those cases, a compliant Michigan taxpayer must submit a use tax form, remitting the use tax owed on the total price (including shipping and handling charges) of all taxable items purchased from the out-of-state⁶ retailer who does not collect Michigan tax.

Starting in tax year 1999, Michigan taxpayers were able to remit use tax payments while filing their income tax return, instead of filing numerous use tax forms. This alternative simplifies the tax compliance process for the taxpayer. In tax year 2000, 79,627 taxpayers remitted \$2,976,223 in use tax.

⁶An out-of-state business that does not have a store, warehouse, or employees in Michigan does not have to register and collect Michigan use tax. However, many out-of-state businesses voluntarily collect use tax for their customers.

Exhibit 4
Effective Income Tax Rate, 2000



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

V. INCOME TAX CREDITS

For tax year 2000, Michigan's personal income tax offered a total of 11 different credits to taxpayers: four refundable credits (homestead property tax, farmland preservation property tax, home heating credit, and the prescription drug credit), and seven nonrefundable credits (city income tax credit, college contribution credit, community foundation credit, homeless shelter/food bank credit, college tuition and fees credit, other state income tax credit, and the Michigan historic preservation credit).

Property Tax Credit

Michigan's property tax credit system is a "circuit breaker" relating property taxes to total income. When property taxes exceed specific income thresholds, the system "trips" to provide relief to taxpayers. In tax year 2000, taxpayers with household income over \$82,650 may not claim a property tax credit, and the computed credit is reduced by 10 percent for every \$1,000 that household income exceeds \$73,650.

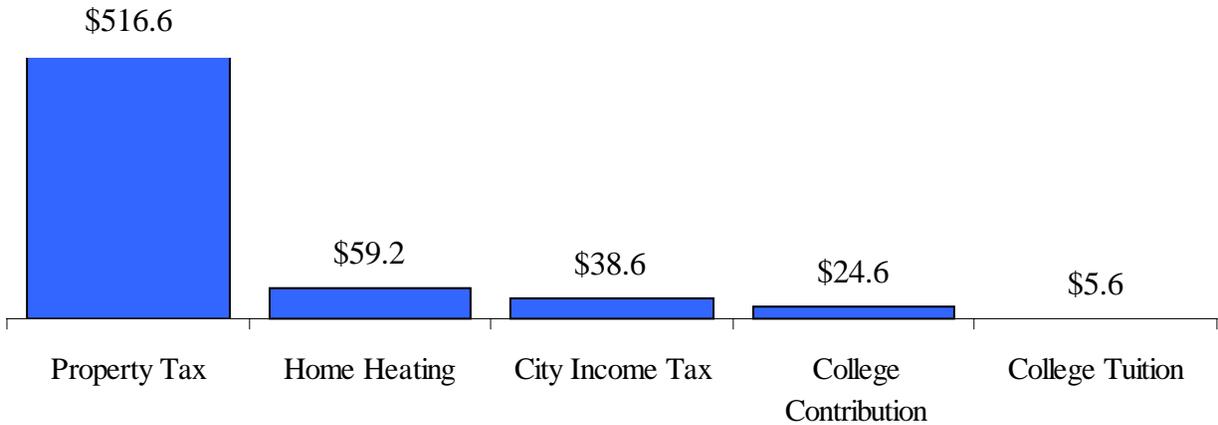
Most homeowners and renters receive credits equal to 60 percent of the amount by which homestead property taxes (or 20 percent of rent for renters) are greater than 3.5 percent of income. Senior citizens, paraplegic, hemiplegic, quadriplegic, totally and permanently disabled, deaf, or blind filers receive a credit for 100 percent of their property taxes above the following percentages of income:⁷

<u>Income</u>	<u>Percent Not Refundable</u>
\$ 0 - \$3,000	0.0%
\$3,001 - \$4,000	1.0%
\$4,001 - \$5,000	2.0%
\$5,001 - \$6,000	3.0%
Over \$6,000	3.5%

About 1.2 million Michigan taxpayers received \$497.5 million of homestead property tax credits and \$19.1 million in farmland preservation property tax credits in 2001 (2000 returns). Michigan's property tax credit program is one of the largest property tax relief programs in the country. The \$516.6 million in total 2000 property tax credits represented an increase of \$29.7 million from the prior year, while 23,300 additional taxpayers received assistance. Senior citizens received \$220.1 million of the credits, a \$1.9 million decrease from 1999. Exhibit 5 (see page 15) illustrates the amount of money paid to taxpayers for property tax credits compared to other credits.

⁷Public Act 41 of 2000 increased the Homestead Property Tax Credit for taxpayers who are deaf, blind, or totally and permanently disabled. Prior to tax year 2000, deaf filers received the same credit as other homeowners and renters, while blind, or totally and permanently disabled filers received 60 percent of the credit calculated for senior citizens and paraplegic, hemiplegic, or quadriplegic.

Exhibit 5
2000 Individual Income Tax Credits
(millions of dollars)



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

The average 2000 homestead property tax credit was \$428.77 (excluding the farmland credit), a \$15.94 increase from the tax year 1999 average. Senior citizens' credits averaged \$604.37, a \$7.86 increase from 1999. Following is a summary of the number of credits received by taxpayers, according to AGI levels.

2000 Homestead Property Tax Credits
(excludes farmland credit)

		Number of Credits <u>Allowed</u>	Dollar Amount of Credit	Average Credit
Under	\$10,000	376,136	\$185,953,399	\$494.38
	\$10,001 - \$20,000	284,020	119,386,780	420.35
	\$20,001 - \$50,000	387,699	145,154,656	374.40
	Over \$50,000	<u>112,773</u>	<u>47,067,436</u>	<u>417.36</u>
Total		1,160,628	\$497,562,271	\$428.70

The table above and Exhibit 12 (see page 34) confirm that the homestead property tax credit is a progressive element in the state income tax structure. Credits as a fraction of AGI decline continuously as incomes rise. While accounting for only 4.6 percent of total AGI, taxpayers with incomes between \$10,000 and \$20,000 received 24.5 percent of the total homestead credits. On the other hand, taxpayers with AGIs over \$50,000 accounted for 75.1 percent of total 2000 Michigan AGI, but received only 9.5 percent of total homestead credits. Exhibits 15, 17 through

19 (see pages 37, 39 through 41) provide the distribution of property tax credits by income groups.

The farmland preservation program, originally PA 116 of 1974 which was replaced by PA 451 of 1994 (part 361 of chapter 1, article III of the Natural Resources and Environmental Protection Act), provides additional property tax relief for farmers. Under the farmland program, farmers may receive additional property tax relief by entering into an agreement with the state not to convert the farmland to other uses for at least seven years. The program benefited almost 7,400 farms in 2000, providing credits of \$19.1 million for an average credit of \$2,587.

PA 269 of 1982 provides a special tax credit for senior citizens with high rent burdens. This additional credit is the amount by which rent paid exceeds 40 percent of household income. For 2000, 10,600 senior citizens claimed an additional \$3.7 million using this alternate calculation. These amounts represent a decrease of \$292,900 from 1999 with 800 fewer people receiving the additional credit. The amount of this credit is included in the senior citizens' homestead property tax credit statistics, but shown separately in Exhibit 16 (see page 38).

Home Heating Credit

The home heating credit program, designed to help low-income taxpayers with the cost of heating their homes, is financed with federal and state funds. The credit is based on the number of exemptions for which the household is eligible. Senior citizens as well as disabled and blind individuals are entitled to extra exemptions.

Home heating credits totaled \$59.2 million for tax year 2000 with almost 317,500 households qualifying. This represented a \$8.6 million increase over the previous year with almost 10,000 additional households receiving assistance. Prior to 1991, recipients of Aid to Families with Dependent Children or General Assistance were not eligible for this credit, but were provided comparable benefits from other state and local programs. Senior citizens received \$12.2 million of the \$59.2 million in home heating credits claimed for tax year 2000. Exhibit 20 (see page 42) provides information on the distribution of the home heating credit by household income.

2000 Home Heating Credits

	Number of Credits Allowed	Dollar Amount of Credits	Average Credit
	<hr/>	<hr/>	<hr/>
Senior Citizen	79,166	\$12,223,327	\$154.40
General	216,064	43,063,332	\$199.31
Disabled	21,540	3,766,985	\$174.88
Veteran	701	103,515	\$147.67
	<hr/>	<hr/>	<hr/>
Totals	317,471	\$59,157,159	\$186.34

Approximately 24,500 taxpayers used the alternative calculation based on energy consumption claiming credits worth \$9.2 million. The average credit under the standard calculation was \$170.37 compared to \$376.28 under the alternative calculation.

Prescription Drug Credit

The prescription drug credit was established to help low income senior citizens pay for medication prescribed by their doctors. The credit is calculated by subtracting 5 percent of household income from non-reimbursed prescription costs. The maximum credit is \$600 per senior, or \$1,200 for a joint return with two seniors. State law limits the total amount for all prescription drug credits and grants under a pharmaceutical assistance program to \$20 million. For tax year 2000, 29,100 taxpayers claimed \$14.8 million in prescription drug credits. This was a decrease of 2,200 returns totaling almost \$1.0 million less in credits paid from tax year 1999.

Starting in tax year 2002, this credit is repealed. Taxpayers that used to qualify for this credit may qualify to participate in the Elder Prescription Insurance Coverage (EPIC) program enacted by PA 499 of 2000.

The EPIC program is aimed to defraying the cost of prescription drugs for elderly Michigan residents who are not institutionalized or not a medicaid recipient and have a household income up to 200 percent of the federal poverty guidelines. The program is subsidized within the Department of Community Health.

City Income Tax Credit

Partial credit is allowed for taxpayers who paid income taxes to Michigan cities. In 2000, 22 cities in Michigan levied an income tax: Albion, Battle Creek, Big Rapids, Detroit, Flint, Grand Rapids, Grayling, Hamtramck, Highland Park, Hudson, Ionia, Jackson, Lansing, Lapeer, Muskegon, Muskegon Heights, Pontiac, Port Huron, Portland, Saginaw, Springfield, and Walker. Most of these cities levy the tax at 1.0 percent for city residents and 0.5 percent for nonresidents.

The credit is based on the amount of tax paid less any refunds received during the tax year. The credit converts the flat rate tax into a more progressive tax structure. The credit is calculated as follows:

<u>City Income Tax</u>	<u>Credit</u>
Under \$100	20 Percent
\$101 - \$150	\$20.00 + 10 percent of excess over \$100
Over \$150	\$25.00 + 5 percent of excess over \$150

City income tax credits amounted to \$38.6 million for tax year 2000 (see Exhibit 15 on page 37), a \$562,500 increase from 1999, while the number of claimants increased by almost 7,600. The following table lists the number of city income tax credits, total credits received, and the average city income tax credit for taxpayers at different levels of AGI.

2000 City Income Tax Credits

	<u>Adjusted Gross Income</u>	<u>Number of Credits Allowed</u>	<u>Dollar Amount of Credit</u>	<u>Average Credit</u>
Under	\$10,000	147,710	\$1,779,448	\$12.05
	\$10,001 - \$20,000	154,721	3,594,058	23.23
	\$20,001 - \$50,000	341,347	12,221,179	35.80
Over	\$50,000	<u>391,969</u>	<u>20,981,972</u>	<u>53.53</u>
Totals		1,035,747	\$38,576,656	\$37.25

College Contribution Credit

Taxpayers may claim partial credits for contributions to Michigan colleges and universities, public libraries, museums, and public broadcasting stations. The credit is equal to 50 percent of the amount contributed up to a maximum credit of \$200 for a joint return (\$100 on a single return). For 2000, 284,300 taxpayers received almost \$24.6 million in credits (see Exhibit 15 on page 37). Credits increased by \$1.3 million from the prior year when 274,700 taxpayers received \$23.3 million in credits.

Community Foundation Credit

The community foundation credit, implemented in tax year 1989, is a partial credit for donations to certified community foundations. The credit is equal to 50 percent of the donation up to a maximum of \$200 for a joint return (\$100 on a single return). For tax year 2000, almost 27,000 taxpayers claimed \$2.5 million in community foundation credits. This was an increase of 3,300 taxpayers and \$328,000 in credits from 1999.

Homeless Shelter/Food Bank Credit

The homeless shelter/food bank credit provides a partial credit for cash donations to a qualifying homeless shelter, food bank, or food kitchen whose primary purpose is to provide accommodations or food to indigent persons. The credit is equal to 50 percent of the donation up to a maximum of \$200 for a joint return (\$100 on a single return). For tax year 2000, 180,400 taxpayers claimed \$13.7 million in food bank credits. This represented an increase of 12,700 taxpayers and \$1.4 million in credits claimed over the previous tax year.

College Tuition and Fees Credit

Created by Public Act 7 of 1996, the college tuition and fees credit allows taxpayers with AGIs of less than \$200,000 to claim a credit equal to a percentage of tuition and fee payments made on

behalf of the taxpayer or any other student to a qualified Michigan college or university. To qualify, the school must have certified that tuition and fees will not increase by more than the rate of inflation. For tax year 2000, 60,400 taxpayers claimed the credit, 7,500 more than in 1999. The \$5.6 million in credits for 2000 represented an increase of almost \$900,000 from tax year 1999. Despite the increase in the number of credits claimed in 2000, there has been a dramatic decline in this credit since 1999 due in large part to low inflation. In order to qualify for tax year 2000, institutions had to limit tuition and fee increases for the 2000-2001 academic year to 2.2 percent over the 1999-2000 academic year. Only 4 private colleges, 17 community colleges, 1 state university qualified for tax year 2000. In tax year 1999, only 3 private colleges and 11 community colleges, and no state universities qualified for the credit. In contrast, 9 private colleges, 20 public community colleges, and 7 state universities qualified for the credit in tax year 1998.

Other Credits

Almost 43,800 taxpayers received a total of \$31.8 million credit for income tax paid to another state, resulting in an average credit of \$725 in tax year 2000.

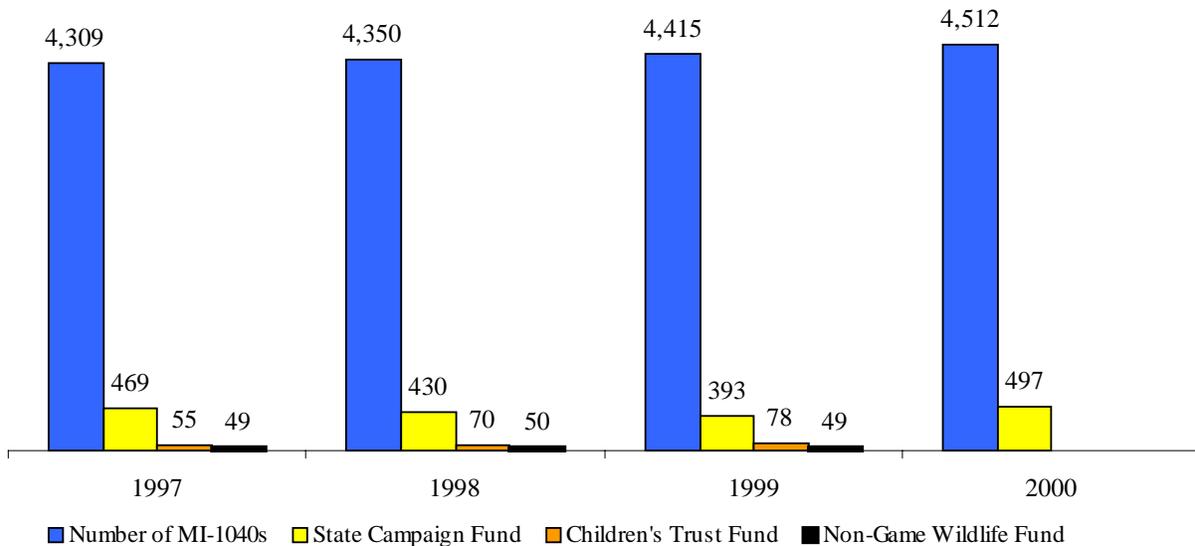
The Michigan historic preservation credit provides tax incentives for homeowners, commercial property owners and businesses to rehabilitate historic commercial and residential resources located in the state of Michigan. The credit was created by Public Act 534 and 535 of 1999, and is equal to 25 percent of the qualified expenditures. In tax year 2000, 107 taxpayers claimed \$176,800 in historic preservation credits.

VI. DESIGNATED CONTRIBUTIONS

For the 2000 tax year, taxpayers were able to designate \$3.00 of their tax liability for the State Campaign Fund, which supports state gubernatorial campaigns. For 2000, 496,800 taxpayers contributed almost \$1.5 million to the State Campaign Fund (see Exhibit 6 below). On average, there was one designation for every 9 returns.

Prior to tax year 2000, taxpayers could donate a portion of their income tax refund or increase their liability to support two other funds: the Children’s Trust Fund (CTF) and the Non-Game Wildlife Fund. The CTF was created by Public Act 211 of 1982. Contributions to the fund were returned to local communities and dedicated to the prevention of child abuse. The Michigan Non-Game Wildlife Fund was created by Public Act 189 of 1983. Contributions were used for research and management of non-game fish and wildlife. Public Act 291 of 2000 appropriated amounts to fully fund both the Children’s Trust and Non-Game Wildlife Funds, eliminating the contribution from the form.

Exhibit 6
Returns Designating Contributions
(thousands)



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

VII. INTERSTATE COMPARISONS

In 2000, Michigan along with five other states (Colorado, Illinois, Indiana, Massachusetts, and Pennsylvania) had a flat rate income tax. Seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) had no state personal income tax. Two states (New Hampshire and Tennessee) taxed only dividend and interest income, and two other states (Rhode Island and Vermont) taxed a certain percentage of the taxpayer's federal income tax liability. The remaining 33 states had income taxes with graduated rates. A state-by-state comparison of the income tax burden per person and tax revenue as a percent of personal income is shown in Exhibit 7 (see page 22). Exhibits 8 and 9 (see page 23) compare Michigan's income tax to that of other states in the Great Lakes region.

In fiscal year 2000, Michigan ranked 21st highest in income taxes per person with Massachusetts ranking first overall. Michigan ranked 30th highest in state income taxes as a percent of personal income with Oregon ranking first. Michigan's income tax, as a percent of personal income at 2.51 percent, was 0.08 of a percentage point above the U.S. average, but 0.46 of a percentage point below the average of the 41 states with a general income tax. In fact, income taxes as a percent of personal income decreased from 1999, when they were 2.70 percent. The above calculations use estimates of quarterly state personal income, released by the U.S. Bureau of Economic Analysis in January 24, 2002, and compiled by the Office of Revenue and Tax Analysis for each state's fiscal year. Because personal income does not include capital gains but tax revenues includes the tax on realized gains, and capital gains distributions are not uniformly distributed among states, the calculated ratios are skewed.

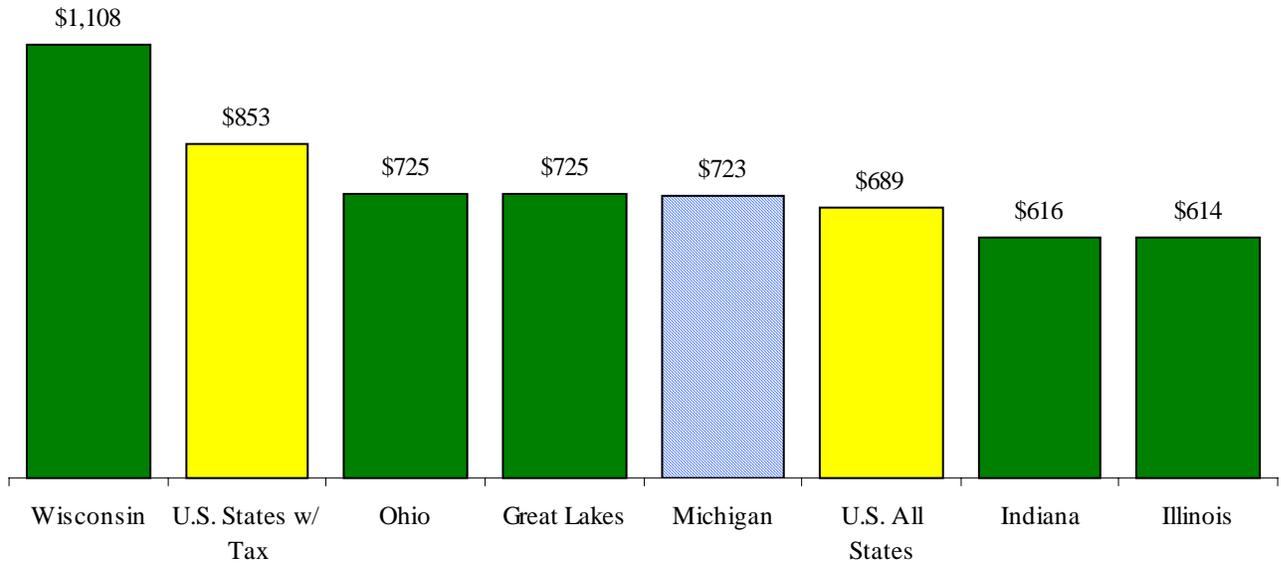
Consistent economic growth from 1994 through 2000 has resulted in increased income tax collections on a per capita basis. Over the preceding six years, when the tax rate was 4.4 percent, collections per person have risen from \$585 in fiscal year 1994 to \$750 in fiscal year 1999. In fiscal year 2000, due to the tax rate reduction to 4.2 percent, collections per person were \$723. (For income tax rates from 1968 to present, see Exhibit 23 on page 47.) While total collections have increased over the years, the income tax burden in Michigan has been declining relative to that in other states over this period. In fiscal year 1994, Michigan ranked 11th highest in per capita income taxes and 14th highest in income taxes as a percent of personal income. For fiscal year 2000, Michigan ranked 21st and 30th, respectively.

Exhibit 7
State Individual Income Taxes for FY 2000
Per Person and Percentage of Personal Income

<u>State</u>	<u>Per Person Individual Income Taxes</u>	<u>Rank</u>	<u>Income Taxes as a Percent of Personal Income</u>	<u>Rank</u>
Alabama	465	37	2.00%	35
Alaska	No Tax	N/A	No Tax	N/A
Arizona	444	38	1.84%	38
Arkansas	549	34	2.56%	26
California	1,164	5	3.79%	4
Colorado	841	15	2.72%	18
Connecticut	1,165	4	2.95%	14
Delaware	933	9	3.13%	13
Florida	No Tax	N/A	No Tax	N/A
Georgia	773	17	2.88%	15
Hawaii	878	11	3.22%	11
Idaho	743	18	3.25%	9
Illinois	614	30	1.99%	36
Indiana	616	29	2.35%	33
Iowa	646	26	2.51%	29
Kansas	692	23	2.59%	25
Kentucky	667	25	2.87%	16
Louisiana	354	39	1.56%	40
Maine	843	14	3.40%	8
Maryland	869	12	2.69%	21
Massachusetts	1,422	1	3.95%	3
Michigan	723	21	2.51%	30
Minnesota	1,125	6	3.66%	6
Mississippi	353	40	1.73%	39
Missouri	634	27	2.40%	32
Montana	572	32	2.62%	23
Nebraska	685	24	2.52%	27
Nevada	No Tax	N/A	No Tax	N/A
New Hampshire	53	42	0.17%	42
New Jersey	855	13	2.40%	31
New Mexico	484	36	2.27%	34
New York	1,221	2	3.72%	5
North Carolina	879	10	3.41%	7
North Dakota	310	41	1.29%	41
Ohio	725	20	2.65%	22
Oklahoma	618	28	2.69%	20
Oregon	1,195	3	4.45%	1
Pennsylvania	551	33	1.92%	37
Rhode Island	789	16	2.79%	17
South Carolina	608	31	2.61%	24
South Dakota	No Tax	N/A	No Tax	N/A
Tennessee	32	43	0.13%	43
Texas	No Tax	N/A	No Tax	N/A
Utah	737	19	3.25%	10
Vermont	709	22	2.71%	19
Virginia	961	8	3.21%	12
Washington	No Tax	N/A	No Tax	N/A
West Virginia	534	35	2.52%	28
Wisconsin	1,108	7	4.05%	2
Wyoming	No Tax	N/A	No Tax	N/A
U.S. Average	\$689		2.43%	
U.S. Average for States With a General Income Tax	\$853		2.97%	

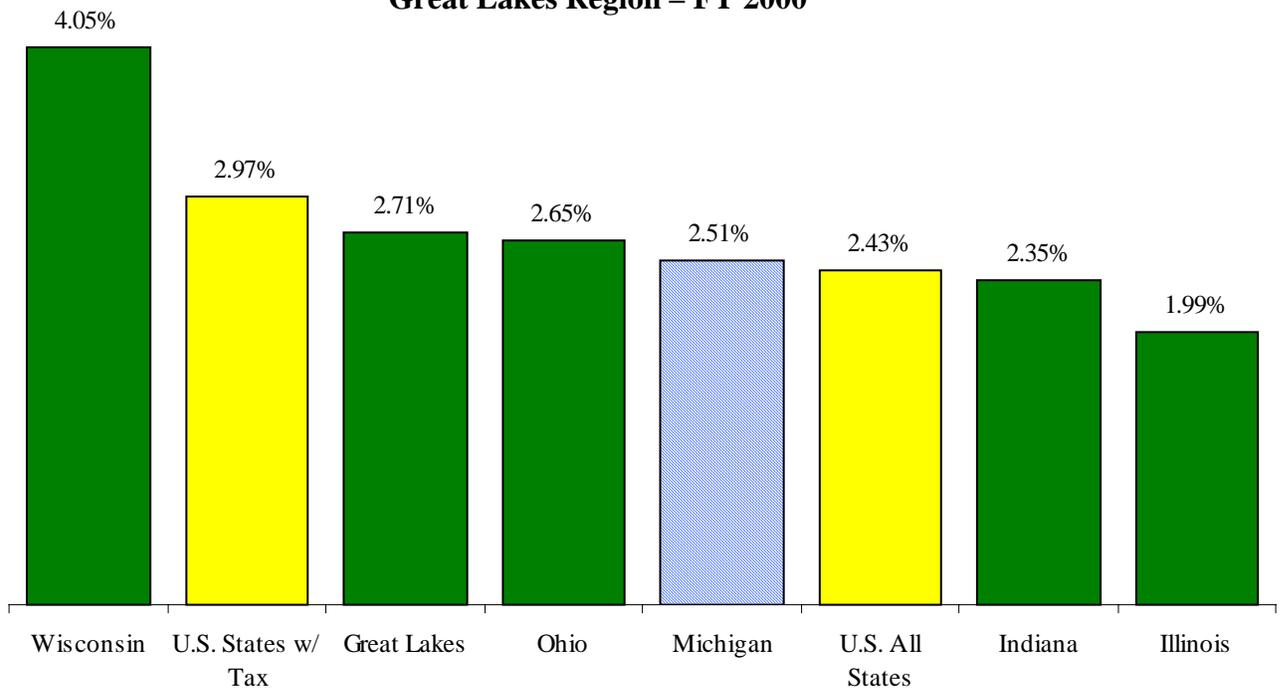
Sources: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce.

Exhibit 8
State Income Taxes Per Person
Great Lakes Region - FY 2000



Sources: Census Bureau and Bureau of Economic Analysis, U.S. Dept. of Commerce.

Exhibit 9
State Income Taxes
Percentage of Personal Income
Great Lakes Region – FY 2000



Sources: Census Bureau and Bureau of Economic Analysis, U.S. Dept. of Commerce.

VIII. GEOGRAPHIC PATTERN OF TAX AND CREDITS

Exhibit 21 (see page 43) reports the distribution of income tax collections and property tax and home heating credits. Since farms receive special treatment for the homestead property tax credit and the separate farmland credit, rural counties benefit substantially from these programs.

Exhibit 22 (see page 45) provides a ranking by county of average AGI, average income tax before and after credits, credits as a percentage of income tax before credits, ratio of property tax credits to returns filed, and average property tax credit. A summary of Exhibit 22 is provided below.

Exhibits 24 and 25 (see pages 48 and 49) compare the average AGI and property tax credit for each Michigan county.

County-level statistics are compiled using the zip code provided on each tax return. Adjustments were made to the zip code database in 1999 to more accurately identify the county of residence. While the change is relatively small in magnitude, the reader should exercise caution when comparing the information in this report to similar statistics contained in reports from prior years.

Personal Income Tax County Data Summary

	State Average	Highest County	Lowest County
Average AGI	\$52,247	\$73,194 OAKLAND	\$27,356 OSCODA
Average Income Tax Before Credits	\$1,555	\$2,582 OAKLAND	\$680 OSCODA
Average Income Tax After Credits	\$1,393	\$2,396 OAKLAND	\$374 KEWEENAW
Income Tax Credits as a Percent of Tax Before Credits	10.4%	54.0% KEWEENAW	5.7% LIVINGSTON
Ratio of Property Tax Credits to 1040s Filed	27.2%	94.4% KEWEENAW	17.0% ALGER
Average Property Tax Credit	\$443	\$813 HURON	\$266 GOGEBIC

Property tax credits include farmland preservation credits.

IX. FEDERAL INCOME TAX INTERACTION

The starting point for calculating the Michigan income tax is federal AGI. Thus, Michigan income tax revenues can be influenced by changes in federal tax law that modify the calculation of AGI. For example, a change in federal tax law requiring self-employed individuals and rental property owners to depreciate their assets over a longer time period would expand the Michigan tax base and increase tax revenues. Conversely, a change in federal tax law increasing the amount a taxpayer can contribute each year to a tax-deferred retirement account would reduce the Michigan tax base, thus lowering revenues.

The Michigan income tax base increased due to significant changes in federal tax law contained in the Tax Reform Act of 1986 (TRA-86). Almost all of the changes to federal law in the 1990s have caused AGI to become narrower, thus reducing the Michigan tax base. The changes in the 1990s pale, however, in comparison to the scope of the expansions brought about by TRA-86.

Changes in AGI at the federal level can be offset or reinforced at the state level. Expansions in the tax base can be offset with tax cuts. In response to TRA-86, the personal exemption was increased from \$1,500 in 1986 to \$1,600 in 1987, \$1,800 in 1988, \$2,000 in 1989, and \$2,100 in 1990. The special exemptions for senior citizens, blind persons, and those taxpayers with 50 percent or more of their AGI attributable to unemployment compensation were also created.

Summary of Federal Tax Law Changes

Significant federal tax law changes affecting Michigan's tax base are discussed below. The changes are grouped based on when they first became effective.

1987

The TRA-86 contained many provisions that expanded the definition of AGI. The dividend exclusion and 60 percent long-term capital gain deduction were eliminated. The deduction for married couples when both work was eliminated. Most employee and moving expenses were no longer removed from AGI but only subtracted as an itemized deduction. However, self-employed taxpayers were allowed to subtract 25 percent of their health insurance premiums as an adjustment to income.

New rules reduced the deductibility of contributions to individual retirement arrangements (IRAs) for taxpayers covered by employer-sponsored pension plans. Losses from passive activities, such as real estate partnerships, were generally no longer deductible from other income. New rules limited the deductibility of losses from rental property activities. New depreciation rules slowed the rate at which investment assets could be depreciated. Finally, all unemployment compensation was included in AGI.

TRA-86 made other changes to Michigan's tax base unrelated to AGI. Michigan taxpayers had been allowed to claim the same number of exemptions on their Michigan return as they claimed on that year's federal return. Before 1987, taxpayers were able to claim an extra full federal exemption if they were blind or a senior citizen. TRA-86 replaced these extra federal exemptions with an increased standard deduction. Also, individuals eligible to be claimed as dependents on someone else's tax return, such as a parent's return, were no longer able to claim their own personal exemption.

In response to the reduced number of federal exemptions, new Michigan exemptions were created for taxpayers who were deaf, blind or disabled, or a senior citizen. In response to the full inclusion of unemployment benefits in AGI, a new exemption was created for taxpayers who received unemployment compensation equal to at least 50 percent of their AGI. The new special exemption amount was set so that a taxpayer claiming one extra exemption received the same exemption amount in tax years 1987 through 1990 as in 1986. Also, for tax years beginning in 1988 and following, an individual required to file a tax return and eligible to be claimed as a dependent on another taxpayer's return, could claim a smaller personal exemption. The exemption was set at \$500 in tax year 1988 and \$1,000 for tax years beginning after 1988.

1994

The Omnibus Budget Reconciliation Act of 1993 (OBRA-93) made minor revisions to federal tax law, generally reducing reported AGI. Moving expenses were reinstated as an adjustment to income. This reduced AGI for taxpayers with these expenses, thus lowering their Michigan income tax liability. Similarly, OBRA-93 also made it easier for taxpayers to deduct losses from rental activities if they "materially participate" in operating the rental properties. Such losses only affect the Michigan income tax for properties located in Michigan.

1995

AGI could now be reduced by 30 percent of the amount paid for health insurance by the self-employed. Separate legislation later increased the deductible percentage to 40 percent for tax year 1997, 45 percent for 1998, and 60 percent for tax year 1999. For tax years after 2002, all health insurance premiums for the self-employed will be deductible.

1996

New legislation made payments from qualified state tuition programs (QSTP) taxable only if the amount received was greater than the amount originally contributed. This resolved a legal dispute initially begun over the Michigan Education Trust (MET), a prepaid tuition program Michigan started in 1988. The new law has led to the rapid growth of QSTPs, including the Michigan Education Savings Program described in Chapter X.

1997

A number of federal law changes became effective in 1997, resulting in changes to Michigan's tax base. Most gains on the sale of a primary residence were excluded from AGI if the taxpayer owned and lived in the house for two of the last five years preceding the sale. Single taxpayers have a \$250,000 exclusion, and married taxpayers filing a joint return may exclude \$500,000. Previously, gains on the sale of a primary residence were deferred only if the taxpayer purchased a new residence for a price greater than the taxpayer's cost basis in the former residence. Prior to the effective date of this new provision, taxpayers who were 55 or older were allowed under certain conditions to make a one-time exclusion of a gain on the sale of a primary residence of up to \$125,000.

Taxpayers were granted a full \$2,000 IRA deduction for a non-working spouse. Previously, the deduction for a spouse without earned income was \$250. A new deduction for contributions to medical savings accounts was also created. This new federal deduction resulted in the elimination of the separate Michigan deduction for contributions to these accounts.

1998

Effective for 1998, taxpayers were able to establish new Education and Roth IRAs. Contributions to these accounts are not deductible, but both accounts allow investment earnings to accumulate tax-deferred and withdrawals may be tax-free. If a distribution from an Education IRA is used for qualified higher education expenses, the distribution is tax exempt. If a distribution from a Roth IRA is received five years after the taxpayer established the account and after the taxpayer reaches age 59½, the entire distribution is tax exempt.

Education IRAs only impact on Michigan income tax revenues will be that the investment earnings on these particular savings arrangements may be tax exempt. Eventually the tax exemption will reduce income tax revenues somewhat, but the short-term impact will be insignificant. While Roth IRAs also allow investment earnings to accumulate tax-exempt, they resulted in an immediate, short-term increase in Michigan income tax collections. Taxpayers eligible to contribute to a Roth IRA are also allowed to convert a traditional IRA into a Roth IRA. The amount converted is generally included in the taxpayer's AGI in the year of conversion. A provision in the initial legislation, however, allowed taxpayers to spread the conversion amount over four years, from 1998 through 2001. This provision was only available in 1998, and it resulted in a large number of conversions. The increase in AGI from these conversions resulted in a one-time, four-year increase in Michigan income tax revenues. However, for taxpayers meeting the distribution rules described above, withdrawals from Roth IRAs will be free from further income taxes.

New legislation effective in 1998 also increased the deductibility of contributions to traditional IRAs. The income limits for making deductible contributions when the taxpayer participates in an employer-sponsored retirement plan were increased. These limits will continue to increase each year up to \$50,000 for singles and \$80,000 for married couples for tax years beginning after 2006. Full deductions were also allowed for taxpayers with AGIs below \$150,000 whose

spouses participate in an employer-sponsored retirement plan. Taxpayers who do not participate themselves nor have a spouse participating in an employer-sponsored retirement plan have been allowed a full IRA deduction since the inception of these arrangements.

A new adjustment to income allowed taxpayers to subtract a percentage of the interest they pay on student loans. For tax year 1998, the deduction was limited to \$1,000. The limit increased to \$1,500 in 1999 and will increase to \$2,500 in 2001.

2000

Restitution payments received after 1999 by victims of Nazi persecution or their heirs became excludable from federal gross income.

2002

Starting in tax year 2002, the Economic Growth and Tax Relief Reconciliation Act of 2001 increased the maximum annual contribution limits for education IRAs, traditional and Roth IRAs, annual elective deferrals for qualified retirement plans, and the AGI phase-out ranges for eligibility for the student loan interest deduction.

To the extent that those changes increased, or made more taxpayers eligible for existing federal deductions, they generally decrease federal AGI, which is the base for the Michigan personal income tax.

Under the Tax Relief Act of 2001, the maximum annual contribution for education IRAs increases from \$500 to \$2,000 per beneficiary in tax year 2002. The maximum annual contribution limits to IRAs (both traditional and Roth) increased from \$2,000 to \$3,000 in 2002 through 2004, \$4,000 in 2005 through 2007, up to \$5,000 in 2008, when the limit is adjusted for inflation for tax years thereafter. Individuals who are age 50 or older are also allowed to make additional “catch-up contributions” to an IRA. The dollar limit on annual elective deferrals under 401(k) plans, 403(b) annuities and 408(k) salary reduction SEPs increases to \$11,000 in 2002, with \$1,000 annual increments until the limits reach \$15,000 in 2006 (limit indexed for inflation in \$500 increments for tax years thereafter). Starting in tax year 2002, the AGI phase-out ranges for eligibility for the student loan interest deduction increases to \$50,000 through \$65,000 for single taxpayers and to \$100,000 through \$130,000 for married taxpayers filing joint returns.

X. PUBLIC ACTS – INCOME TAX

1999

Public Act 1 amended the Income Tax Act to change the percentage of gross collections allocated to the SAF for tax years following the 1999 tax year. The new percentage is equal to 1.012 percent divided by the statutory income tax rate. The percentage had previously been 23 percent of gross collections.

Public Acts 2 through 6 amended the Income Tax Act to lower the income tax rate by 0.1 percentage point each year beginning in the 2000 tax year and continuing through the 2004 tax year. For the 2004 tax year and following, the tax rate will be 3.9 percent.

Public Act 181 amended the Income Tax Act to allow a deduction for amounts received by victims of the Holocaust as a settlement for previously confiscated assets, to the extent that recovery is included in AGI. The deduction would be allowed for tax years beginning on or after January 1, 1994.

Public Act 214 amended the Income Tax Act to make technical changes in the historic preservation credit.

2000

Public Act 40 amended the Income Tax Act to reduce the Michigan income tax rate for 2000 from 4.3 percent to 4.2 percent.

Public Act 41 amended the Income Tax Act to increase property tax credits for certain disabled filers, resulting in the uniform treatment of all senior citizens and disabled filers. The new credits are available for tax years that begin after December 31, 1999.

Public Act 42 amended the Income Tax Act to increase the child deduction to \$600 for children ages 7 through 12 years old and create a \$600 deduction for children ages 13 through 18. The deduction is available for tax years that begin after 1999.

Public Acts 162 and 163 amended the Income Tax Act to create a deduction for contributions to the Michigan Education Savings Program (MESP). Earnings on an account established under MESP and withdrawals from an account that are used to pay higher education expenses would also be deductible to the extent included in AGI. Withdrawals from MESP accounts that are not used for higher education expenses would generally have to be added to AGI. A new deduction was also created for withdrawals from individual retirement accounts used to pay higher education expenses to the extent those withdrawals are included in AGI.

Public Act 195 amended the Income Tax Act to revise the requirements for certification as a community foundation. The new requirements include financial audits, minimum accumulated

endowment funds, and allowing new foundations to locate only in counties without a certified community foundation.

Public Act 301 amended the Income Tax Act to increase the special exemption amount to \$1,800 in tax year 2000. The Act also combined all disability exemptions so taxpayers can claim one special exemption if they or their spouse are blind, deaf, paraplegic, quadriplegic, hemiplegic, or totally and permanently disabled. The exemption amount will be increased in \$100 increments to reflect increases in the Consumer Price Index. The Act also created new special exemptions for dependents who are either senior citizens or have one of the disabilities described above. P.A. 301 also increased the exemption for taxpayers who are eligible to be claimed as a dependent on another taxpayer's return. For tax years beginning after 1999, this exemption will be \$1,500, a \$500 increase from the amount previously allowed.

Public Acts 393 and 394 amended the Income Tax Act to create a refundable credit for qualified adoption expenses. This new Michigan credit is only for those expenses exceeding the limits on the similar federal income tax credit.

Public Act 400 amended the Income Tax Act to create a deduction for charitable contributions made with funds withdrawn from a retirement plan. In order to qualify, the contribution must be made within 60 days after the funds are withdrawn from the retirement plan.

Public Act 421 amended the Natural Resources and Environmental Protection Act to lower the income threshold for farmland preservation income tax credits. The Act lowered the threshold from 7 percent to 3.5 percent for tax years after 2000.

2001

Public Act 169 amended the Income Tax Act to extend indefinitely the home heating credit, which would have sunset after tax year 2000. The credit will be allowed only if there has been a federal appropriation of Low-Income Home Energy Assistance Program (LIHEAP) block grant funds for the federal fiscal year that began in the tax year. From tax years 1996 through 2000, the federal appropriation had to be at least \$20 million.

XI. EXHIBITS 10 THROUGH 26

Exhibit 10
Effective Rate of the Michigan Individual Income Tax, 2000

Adjusted Gross Income Group	Number of Returns Filed⁽¹⁾	Adjusted Gross Income	Effective Personal Exemptions⁽²⁾	Claimed Exemptions	Subtractions Minus Additions	Total Credits⁽³⁾	Effective Tax	Effective Tax as a % of Income
Less than \$1 ⁽⁴⁾	302,440	(\$2,678,944,420)		47,703	(\$1,047,377,576)	\$106,264,128	(\$99,277,078)	
\$ 1 - 2,000	160,255	182,390,975	28,973	87,621	39,063,375	19,221,988	(\$18,423,864)	-10.1%
2,001 - 4,000	203,278	608,600,336	90,017	129,420	55,726,174	22,334,401	(\$14,380,064)	-2.4%
4,001 - 6,000	191,773	956,144,495	119,912	160,490	110,501,134	27,308,113	(\$10,313,985)	-1.1%
6,001 - 8,000	175,287	1,224,822,168	145,053	189,273	194,140,167	31,107,109	(\$8,771,122)	-0.7%
8,001 - 10,000	165,506	1,489,322,148	168,317	213,885	295,022,467	32,949,778	(\$6,340,107)	-0.4%
10,001 - 12,000	157,308	1,729,201,143	181,418	223,581	385,936,393	31,344,479	\$119,950	0.0%
12,001 - 14,000	148,921	1,934,851,406	188,956	225,900	445,204,846	28,492,391	\$8,431,008	0.4%
14,001 - 16,000	145,010	2,174,584,691	196,419	231,623	497,141,711	26,511,807	\$17,529,101	0.8%
16,001 - 18,000	140,561	2,388,541,800	203,964	232,442	506,537,243	24,021,369	\$27,847,912	1.2%
18,001 - 20,000	134,365	2,551,312,488	208,389	229,368	479,138,610	21,542,890	\$37,954,267	1.5%
20,001 - 22,000	128,310	2,693,809,222	208,837	224,006	457,144,339	19,270,300	\$47,293,933	1.8%
22,001 - 24,000	122,033	2,805,532,173	206,074	215,853	440,072,950	17,288,250	\$55,208,730	2.0%
24,001 - 26,000	115,422	2,884,809,165	199,465	207,025	432,152,689	15,504,222	\$61,664,588	2.1%
26,001 - 28,000	109,460	2,954,975,204	192,939	199,549	448,632,765	14,105,814	\$66,242,838	2.2%
28,001 - 30,000	104,236	3,022,251,625	186,081	192,345	469,541,200	13,124,704	\$70,123,468	2.3%
30,001 - 35,000	237,854	7,715,587,401	444,633	453,596	1,162,671,514	28,371,911	\$189,787,235	2.5%
35,001 - 40,000	209,676	7,853,853,797	430,597	432,763	1,107,831,774	23,705,640	\$204,469,015	2.6%
40,001 - 45,000	188,134	7,987,553,938	416,350	415,066	1,066,481,974	20,004,356	\$217,449,106	2.7%
45,001 - 50,000	172,317	8,179,783,038	405,807	403,020	1,062,181,603	17,607,629	\$229,489,434	2.8%
Over 50,000	<u>1,470,698</u>	<u>177,055,643,414</u>	<u>4,445,225</u>	<u>4,103,303</u>	<u>35,072,125,222</u>	<u>126,837,675</u>	<u>\$5,270,245,425</u>	3.0%
Totals	4,782,844	\$235,714,626,207	8,667,427	8,770,129	\$43,679,870,574	\$666,918,954	\$6,346,349,790	2.7%

⁽¹⁾Includes 271,283 credit-only returns.

⁽²⁾Since the value of some taxpayers' exemptions exceed their income, "effective exemptions" are defined as those personal exemptions that offset income.

⁽³⁾Does not include Farmland Preservation Credits or Prescription Drug Credits.

⁽⁴⁾The less than \$1 category includes tax returns reporting a negative AGI.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 11
Breakdown of Upper Income Filers
Individual Income Tax, 2000

Adjusted Gross Income Group	Number of Returns Filed	Adjusted Gross Income	Effective Personal Exemptions⁽¹⁾	Claimed Exemptions	Subtractions Minus Additions	Total Credits⁽²⁾	Effective Tax	Effective Tax as a % of Income
\$50,000 - 55,000	160,677	\$8,431,400,266	384,881	395,181	\$1,087,551,304	\$15,639,253	\$243,682,021	2.9%
55,001 - 60,000	149,317	8,580,885,375	385,789	381,922	\$1,056,143,789	14,372,263	252,459,973	2.9%
60,001 - 65,000	136,064	8,499,089,622	366,804	361,257	\$1,016,593,883	12,874,645	254,576,281	3.0%
65,001 - 70,000	121,977	8,227,186,438	338,175	332,477	\$960,822,196	11,480,348	250,564,561	3.0%
70,001 - 75,000	108,064	7,828,320,031	302,459	300,720	\$900,616,322	9,708,421	242,704,786	3.1%
75,001 - 80,000	94,691	7,333,543,838	273,102	268,279	\$801,291,499	6,899,894	232,677,161	3.2%
80,001 - 85,000	82,808	6,826,318,196	241,929	238,364	\$724,394,577	4,442,054	221,048,027	3.2%
85,001 - 90,000	71,935	6,290,205,214	212,751	209,385	\$632,340,421	3,512,448	207,076,020	3.3%
90,001 - 95,000	62,653	5,792,076,910	187,104	183,640	\$578,658,906	3,232,823	191,958,835	3.3%
95,001 - 100,000	54,158	5,277,247,600	163,061	159,709	\$517,514,682	2,937,633	176,263,210	3.3%
Over 100,000	428,354	103,969,369,924	1,589,171	1,272,369	\$26,796,197,643	41,637,786	2,997,334,657	2.9%
Totals	1,470,698	\$177,055,643,414	4,445,225	4,103,303	\$35,072,125,222	\$126,737,568	\$5,270,345,532	3.0%

⁽¹⁾Since the value of some taxpayers' exemptions exceed their income, "effective exemptions" are defined as those exemptions that offset income.

⁽²⁾Does not include Farmland Preservation Credits or Prescription Drug Credits.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 12
Tax Base Deductions as a Percentage of AGI
Individual Income Tax, 2000

Adjusted Gross Income Group	Total Effective Exemptions	Subtractions Minus Additions	Nonrefundable Credits⁽¹⁾	Property Tax Credits	Home Heating Credits
Less than \$1					
\$ 1 - 2,000	68.2%	21.4%	0.0%	182.0%	57.6%
2,001 - 4,000	59.7%	9.2%	0.0%	63.2%	20.2%
4,001 - 6,000	46.1%	11.6%	0.7%	51.2%	13.0%
6,001 - 8,000	40.7%	15.9%	1.0%	47.4%	9.3%
8,001 - 10,000	37.7%	19.8%	1.1%	42.9%	6.3%
10,001 - 12,000	34.4%	22.3%	1.2%	36.3%	3.7%
12,001 - 14,000	31.6%	23.0%	1.2%	30.2%	2.1%
14,001 - 16,000	28.9%	22.9%	1.2%	25.3%	1.2%
16,001 - 18,000	27.1%	21.2%	1.2%	21.0%	0.6%
18,001 - 20,000	25.7%	18.8%	1.2%	17.6%	0.3%
20,001 - 22,000	24.2%	17.0%	1.3%	14.8%	0.2%
22,001 - 24,000	22.8%	15.7%	1.2%	12.7%	0.1%
24,001 - 26,000	21.3%	15.0%	1.2%	10.9%	0.1%
26,001 - 28,000	20.1%	15.2%	1.1%	9.7%	0.0%
28,001 - 30,000	18.9%	15.5%	1.1%	8.7%	0.0%
30,001 - 35,000	17.6%	15.1%	1.1%	7.2%	0.0%
35,001 - 40,000	16.7%	14.1%	1.1%	5.7%	0.0%
40,001 - 45,000	15.9%	13.4%	1.1%	4.6%	0.0%
45,001 - 50,000	15.1%	13.0%	1.1%	3.8%	0.0%
Over 50,000	7.6%	19.8%	1.0%	0.6%	0.0%
Overall Percent	10.6%	18.5%	1.1%	4.8%	0.6%

⁽¹⁾ Nonrefundable credits, home heating credits, and property tax credits are divided by the tax rate (4.2%) to determine the equivalent income tax deduction. Nonrefundable credits for 2000 are: the city income tax credit, the college contribution credit, the homeless shelter/food bank contribution credit, the other state tax credit, the tuition tax credit, and the Michigan historic preservation credit.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 13
Distribution of Personal Exemptions
Claimed on 2000 Individual Income Tax Returns⁽¹⁾

Adjusted Gross Income Group	Exemptions Claimed							Total Returns	Total Exemptions⁽²⁾
	Zero	One	Two	Three	Four	Five	Six or More		
Zero Income	3,574	16,345	7,030	1,657	1,364	719	468	31,157	47,703
\$ 1 - 2,000	98,998	45,038	9,949	3,844	1,601	513	312	160,255	87,621
2,001 - 4,000	117,810	58,690	15,781	7,077	2,573	892	455	203,278	129,420
4,001 - 6,000	87,420	69,947	20,412	9,146	3,171	1,071	606	191,773	160,490
6,001 - 8,000	55,850	76,792	25,194	11,321	3,986	1,411	733	175,287	189,273
8,001 - 10,000	35,795	80,562	27,420	13,615	5,092	1,942	1,080	165,506	213,885
10,001 - 12,000	23,319	80,935	31,033	13,202	5,445	2,212	1,162	157,308	223,581
12,001 - 14,000	15,080	77,988	33,897	13,191	5,480	2,185	1,100	148,921	225,900
14,001 - 16,000	9,871	75,972	36,756	13,228	5,772	2,255	1,156	145,010	231,623
16,001 - 18,000	6,452	73,936	37,149	13,674	5,888	2,300	1,162	140,561	232,442
18,001 - 20,000	4,354	70,083	36,544	13,330	6,389	2,502	1,163	134,365	229,368
20,001 - 22,000	3,022	66,677	35,021	13,264	6,525	2,606	1,195	128,310	224,006
22,001 - 24,000	2,133	63,901	32,997	12,486	6,664	2,560	1,292	122,033	215,853
24,001 - 26,000	1,578	61,166	30,111	11,519	6,908	2,766	1,374	115,422	207,025
26,001 - 28,000	1,174	57,694	28,381	10,939	6,908	2,952	1,412	109,460	199,549
28,001 - 30,000	895	54,515	27,309	10,286	6,787	2,951	1,493	104,236	192,345
30,001 - 35,000	1,442	119,549	64,373	23,497	17,551	7,744	3,698	237,854	453,596
35,001 - 40,000	858	93,449	60,053	22,973	19,526	8,767	4,050	209,676	432,763
40,001 - 45,000	548	74,322	55,713	22,601	21,521	9,286	4,143	188,134	415,066
45,001 - 50,000	351	59,828	52,300	22,946	23,050	9,670	4,172	172,317	403,020
<u>Over 50,000</u>	<u>1,708</u>	<u>238,306</u>	<u>531,363</u>	<u>241,777</u>	<u>294,932</u>	<u>120,536</u>	<u>42,076</u>	<u>1,470,698</u>	<u>4,103,303</u>
Totals	472,232	1,615,695	1,198,786	505,573	457,133	187,840	74,302	4,511,561	8,817,832

⁽¹⁾Values in this table are based on 4,511,561 MI-1040 tax returns on file.

⁽²⁾Total exemptions calculation assumes 7 exemptions for each return listing 6 or more exemptions.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 14
Distribution of Special Exemptions and Child Deductions
Claimed on 2000 Individual Income Tax Returns⁽¹⁾

<u>Adjusted Gross Income Group</u>	<u>Age Exemptions</u>	<u>Deaf/ Blind/Disabled Exemptions</u>	<u>Unemployed Exemptions</u>	<u>Child 18 and Under Exemptions</u>	<u>Claimed as Dependent Exemptions</u>
Zero Income	11,465	2,921	511	9,189	2,977
\$ 1 - 2,000	17,888	4,227	251	18,454	99,444
2,001 - 4,000	19,925	3,789	484	33,637	118,258
4,001 - 6,000	25,877	4,280	814	42,231	87,679
6,001 - 8,000	32,641	4,322	887	51,410	56,080
8,001 - 10,000	40,795	4,612	673	60,309	36,008
10,001 - 12,000	46,522	4,352	591	60,464	23,566
12,001 - 14,000	47,432	4,146	415	58,694	15,353
14,001 - 16,000	48,153	3,951	264	59,663	10,086
16,001 - 18,000	44,970	3,802	89	59,740	6,703
18,001 - 20,000	39,363	3,520	58	60,216	4,567
20,001 - 22,000	33,661	3,102	41	59,264	3,247
22,001 - 24,000	28,915	2,758	41	57,301	2,367
24,001 - 26,000	24,274	2,596	29	54,896	1,807
26,001 - 28,000	21,790	2,244	19	53,032	1,400
28,001 - 30,000	20,116	2,108	21	50,216	1,103
30,001 - 35,000	43,359	4,597	34	118,107	1,915
35,001 - 40,000	36,092	3,938	33	118,099	1,245
40,001 - 45,000	29,452	3,494	19	117,893	919
45,001 - 50,000	25,971	2,927	14	117,820	691
<u>Over 50,000</u>	<u>233,289</u>	<u>21,059</u>	<u>200</u>	<u>1,205,760</u>	<u>3,425</u>
Totals	871,950	92,745	5,488	2,466,395	478,840

⁽¹⁾Values in this table are based on 4,511,561 MI-1040 tax returns on file.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury .

Exhibit 15
Distribution of Credits
Individual Income Tax, 2000⁽¹⁾

Adjusted Gross Income Group	Number of MI-1040s Filed	% of Total MI-1040s Filed ⁽²⁾	General Property Tax Credit ⁽²⁾			City Income Tax Credit			College Contribution Credit		
			Number Claiming Credit	% of Property Tax Credits Filed	\$ Amount of Credit	AGI Group		AGI Group			
						Number Claiming Credit	% of MI-1040s Filed	\$ Amount of Credit	Number Claiming Credit	% of MI-1040s Filed	\$ Amount of Credit
Less than \$1	31,157	0.7%	9,874	1.4%	\$7,007,923	1,236	0.1%	\$50,207	501	0.2%	\$45,367
\$ 1 - 2,000	160,255	3.6%	12,776	1.8%	4,796,230	12,775	1.2%	60,686	423	0.1%	21,424
2,001 - 4,000	203,278	4.5%	21,416	3.0%	7,248,909	31,527	3.0%	252,662	1,060	0.4%	46,847
4,001 - 6,000	191,773	4.3%	29,125	4.0%	10,121,359	34,947	3.4%	395,684	1,459	0.5%	73,617
6,001 - 8,000	175,287	3.9%	35,171	4.9%	12,589,221	34,304	3.3%	479,317	1,848	0.7%	99,168
8,001 - 10,000	165,506	3.7%	37,821	5.2%	13,701,574	32,921	3.2%	540,892	2,059	0.7%	111,829
10,001 - 12,000	157,308	3.5%	37,408	5.2%	13,400,155	31,750	3.1%	598,385	2,282	0.8%	125,488
12,001 - 14,000	148,921	3.3%	36,912	5.1%	12,729,067	30,755	3.0%	654,139	2,595	0.9%	148,582
14,001 - 16,000	145,010	3.2%	36,732	5.1%	12,313,378	30,601	3.0%	713,108	2,962	1.0%	174,489
16,001 - 18,000	140,561	3.1%	36,719	5.1%	11,912,397	30,905	3.0%	790,642	3,157	1.1%	191,167
18,001 - 20,000	134,365	3.0%	36,058	5.0%	11,490,069	30,710	3.0%	837,784	3,466	1.2%	214,400
20,001 - 22,000	128,310	2.8%	34,468	4.8%	10,775,803	30,520	2.9%	903,276	3,449	1.2%	220,625
22,001 - 24,000	122,033	2.7%	32,544	4.5%	10,074,931	29,619	2.9%	914,076	3,465	1.2%	224,441
24,001 - 26,000	115,422	2.6%	29,835	4.1%	9,176,860	28,291	2.7%	917,042	3,684	1.3%	241,743
26,001 - 28,000	109,460	2.4%	27,299	3.8%	8,421,212	26,337	2.5%	882,023	3,830	1.3%	252,834
28,001 - 30,000	104,236	2.3%	25,086	3.5%	7,832,525	24,996	2.4%	859,598	3,900	1.4%	254,711
30,001 - 35,000	237,854	5.3%	53,905	7.4%	17,095,766	57,783	5.6%	2,058,324	9,903	3.5%	659,628
35,001 - 40,000	209,676	4.6%	42,629	5.9%	14,112,249	51,726	5.0%	1,964,605	10,607	3.7%	725,409
40,001 - 45,000	188,134	4.2%	33,077	4.6%	11,454,086	47,693	4.6%	1,900,811	10,973	3.9%	765,171
45,001 - 50,000	172,317	3.8%	26,421	3.6%	9,706,111	44,382	4.3%	1,821,424	11,409	4.0%	807,356
Over 50,000	<u>1,470,698</u>	<u>32.6%</u>	<u>89,839</u>	<u>12.4%</u>	<u>34,541,908</u>	<u>391,969</u>	<u>37.8%</u>	<u>20,981,972</u>	<u>201,275</u>	<u>70.8%</u>	<u>19,154,901</u>
Totals	4,511,561	100.0%	725,115	100.0%	\$250,501,733	1,035,747	100.0%	\$38,576,656	284,307	100.0%	\$24,559,197

⁽¹⁾Values in this table are based on 4,511,561 MI-1040 tax returns on file.

⁽²⁾18,000 general property tax credits totaling \$5,909,831 were claimed on MI-1040CR returns that were filed without an MI-1040.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 16
Four-Year Comparison of Individual Income Tax Credits
 (Number and Amount in Thousands)

	1997			1998			1999			2000		
	Number	Amount	Average									
Property Tax Credits												
General	700.1	\$217,637.4	\$310.86	701.7	\$222,668.0	\$317.31	722.0	\$236,806.5	\$327.97	743.1	\$256,411.6	\$345.05
Senior Citizen ⁽¹⁾												
Standard	387.0	212,043.4	547.92	374.9	218,225.7	582.16	372.3	222,054.4	596.51	364.2	220,132.0	604.37
Low Income Rent	12.7	4,644.1	365.68	12.1	4,277.4	354.23	11.4	4,032.7	354.08	10.6	3,739.8	352.81
Veteran	15.1	1,894.9	125.60	13.7	1,729.5	126.38	12.7	1,629.7	127.83	12.2	1,511.1	124.18
Blind	2.0	243.4	121.05	1.6	194.4	123.53	1.9	237.9	125.56	1.8	219.7	123.56
Disabled ⁽²⁾	28.8	8,505.7	295.84	29.1	8,836.7	303.44	28.6	8,897.2	310.75	39.3	19,288.0	490.34
Farmland	8.2	17,733.9	2,150.08	7.7	18,018.6	2,331.90	7.2	17,333.9	2,418.57	7.4	19,051.1	2,587.42
Total Property Tax Credits	1,141.2	\$462,702.7	\$405.47	1,128.7	\$469,673.0	\$416.12	1,144.7	\$486,959.7	\$425.39	1,168.0	\$516,613.4	\$442.31
City Income Tax Credit	1,015.3	\$36,799.4	\$36.24	1,024.0	\$37,398.6	\$36.52	1,028.1	\$38,014.2	\$36.98	1,035.7	\$38,576.7	\$37.25
College Contribution Credit	265.4	\$21,560.9	\$81.24	264.8	\$22,047.5	\$83.26	274.7	\$23,305.6	\$84.85	284.3	\$24,559.2	\$86.38
Home Heating Credit	312.6	\$44,315.3	\$141.79	304.7	\$45,380.2	\$148.93	307.5	\$50,578.1	\$164.50	317.5	\$59,157.2	\$186.34
Credit for Income Tax Paid to Another State	39.4	\$24,208.4	\$615.04	41.7	\$26,386.7	\$633.49	41.6	\$28,332.3	\$681.72	43.8	\$31,779.2	\$725.57
Prescription Drug Credit	34.2	\$16,237.6	\$475.17	30.9	\$15,248.9	\$493.65	31.3	\$15,802.3	\$504.30	29.1	\$14,804.3	\$509.05
Community Foundation Credit	18.9	\$1,772.3	\$93.77	21.2	\$2,025.4	\$95.35	23.7	\$2,214.1	\$93.51	27.0	\$2,542.1	\$94.20
Homeless/Food Bank Credit	147.6	\$10,232.2	\$69.32	157.8	\$11,245.2	\$71.24	167.7	\$12,380.4	\$73.83	180.4	\$13,746.9	\$76.22
College Tuition Credit	106.8	\$12,093.7	\$113.24	134.7	\$22,598.1	\$167.75	52.9	\$4,769.1	\$90.20	60.4	\$5,640.8	\$93.38

⁽¹⁾The low-income rent credit amount represents an amount over the standard senior credit. Therefore, the number of filers listed and the credit amount for the standard senior credit includes the low-income rent credit recipients, and the number of low-income rent credits is not included (again) in the total number and amount of property tax credits.

⁽²⁾This category includes credits for paraplegic, quadriplegic and totally disabled persons for years before 2000, and for blind/deaf, paraplegic, quadriplegic and totally disabled persons for 2000.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 17
Distribution of Property Tax Credits Claimed
Individual Income Tax, 2000 ⁽¹⁾

Adjusted Gross Income Group	General			Senior Citizens ⁽²⁾			Veterans			Disabled ⁽³⁾		
	Number of Credits Allowed	% of Total Credits Allowed	\$ Amount of Credit	Number of Credits Allowed	% of Total Credits Allowed	\$ Amount of Credit	Number of Credits Allowed	% of Total Credits Allowed	\$ Amount of Credit	Number of Credits Allowed	% of Total Credits Allowed	\$ Amount of Credit
Zero Income ⁽⁴⁾	24,218	3.3%	\$11,800,354	99,677	27.4%	\$57,608,149	2,091	17.2%	\$302,551	20,423	49.7%	\$9,515,228
\$ 1 - 2,000	12,928	1.7%	4,838,996	12,451	3.4%	8,549,966	123	1.0%	17,638	2,309	5.6%	1,196,462
2,001 - 4,000	21,613	2.9%	7,304,441	13,094	3.6%	8,788,984	121	1.0%	16,027	1,647	4.0%	811,175
4,001 - 6,000	29,324	3.9%	10,187,118	16,029	4.4%	10,493,307	170	1.4%	24,422	1,702	4.1%	840,949
6,001 - 8,000	35,404	4.8%	12,666,526	19,072	5.2%	12,009,964	215	1.8%	28,537	1,698	4.1%	850,001
8,001 - 10,000	38,049	5.1%	13,776,994	21,922	6.0%	13,495,518	280	2.3%	36,779	1,576	3.8%	793,313
10,001 - 12,000	37,598	5.1%	13,457,193	22,333	6.1%	13,441,480	370	3.0%	47,719	1,340	3.3%	653,538
12,001 - 14,000	37,118	5.0%	12,793,400	20,745	5.7%	12,305,127	411	3.4%	52,988	1,145	2.8%	572,901
14,001 - 16,000	36,913	5.0%	12,371,110	19,099	5.2%	11,291,373	374	3.1%	45,795	1,105	2.7%	542,776
16,001 - 18,000	36,922	5.0%	11,973,923	16,344	4.5%	9,585,591	408	3.4%	51,586	939	2.3%	431,922
18,001 - 20,000	36,245	4.9%	11,541,713	13,464	3.7%	7,840,013	386	3.2%	48,087	761	1.9%	338,545
20,001 - 22,000	34,625	4.7%	10,819,908	10,885	3.0%	6,364,426	336	2.8%	41,356	681	1.7%	315,227
22,001 - 24,000	32,713	4.4%	10,118,322	8,924	2.5%	5,194,865	349	2.9%	44,623	617	1.5%	267,858
24,001 - 26,000	29,977	4.0%	9,221,854	7,374	2.0%	4,325,779	333	2.7%	40,500	547	1.3%	266,526
26,001 - 28,000	27,426	3.7%	8,456,976	6,552	1.8%	3,913,479	256	2.1%	30,296	437	1.1%	199,035
28,001 - 30,000	25,187	3.4%	7,863,273	5,818	1.6%	3,518,847	256	2.1%	30,600	389	0.9%	183,026
30,001 - 35,000	54,158	7.3%	17,171,380	11,530	3.2%	6,948,064	679	5.6%	81,738	828	2.0%	367,268
35,001 - 40,000	42,795	5.8%	14,159,254	8,611	2.4%	5,271,153	679	5.6%	85,199	619	1.5%	278,799
40,001 - 45,000	33,199	4.5%	11,494,908	6,679	1.8%	4,212,552	656	5.4%	78,142	509	1.2%	234,877
45,001 - 50,000	26,526	3.6%	9,738,478	5,554	1.5%	3,568,072	630	5.2%	76,812	365	0.9%	171,184
Over 50,000	<u>90,177</u>	<u>12.1%</u>	<u>34,655,443</u>	<u>18,074</u>	<u>5.0%</u>	<u>11,405,264</u>	<u>3,045</u>	<u>25.0%</u>	<u>329,688</u>	<u>1,477</u>	<u>3.6%</u>	<u>677,041</u>
Totals	743,115	100.0%	\$256,411,564	364,231	100.0%	\$220,131,973	12,168	100.0%	\$1,511,083	41,114	100.0%	\$19,507,651

⁽¹⁾Values in this table are based on a sample of the 4,782,844 MI-1040 and MI-1040CR returns.

⁽²⁾Includes Senior Citizen Low Income Rent Credits.

⁽³⁾Includes blind, blind/deaf, paraplegic, quadriplegic, and totally disabled.

⁽⁴⁾Represents those individuals who had no taxable income, but did receive a property tax credit.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 18
Distribution of Senior Citizen Property Tax Credits by Household Income
Individual Income Tax, 2000

<u>Household Income</u>	<u>Number of Returns</u>	<u>Property Tax Paid</u>	<u>Property Tax Credit</u>	<u>Property Tax Paid After Credit</u>
\$1,000 and below	1,415	\$3,490,488	\$1,478,203	\$2,012,285
1,001 - 2,000	345	429,268	290,864	138,404
2,001 - 3,000	569	539,757	425,793	113,964
3,001 - 4,000	1,176	1,327,809	811,675	516,134
4,001 - 5,000	2,230	1,793,059	1,471,075	321,984
5,001 - 6,000	4,409	3,636,877	2,714,136	922,741
6,001 - 7,000	11,943	8,796,854	6,902,231	1,894,623
7,001 - 8,000	8,740	7,418,529	5,010,941	2,407,588
8,001 - 9,000	10,570	9,619,773	6,151,847	3,467,926
9,001 - 10,000	11,328	10,776,321	6,694,246	4,082,075
10,001 - 11,000	10,950	11,094,058	6,633,543	4,460,515
11,001 - 12,000	10,851	11,892,542	6,649,761	5,242,781
12,001 - 13,000	10,756	12,468,950	6,773,683	5,695,267
13,001 - 14,000	10,665	12,420,708	6,736,738	5,683,970
14,001 - 15,000	10,668	13,793,639	6,674,078	7,119,561
15,001 - 16,000	11,242	13,859,821	6,966,720	6,893,101
16,001 - 17,000	11,153	14,272,584	6,865,527	7,407,057
17,001 - 18,000	11,191	14,861,311	6,918,610	7,942,701
18,001 - 19,000	11,033	14,959,204	6,755,802	8,203,402
19,001 - 20,000	10,722	15,664,885	6,616,332	9,048,553
20,001 - 21,000	10,739	15,412,905	6,559,876	8,853,029
21,001 - 22,000	10,372	15,360,689	6,320,950	9,039,739
22,001 - 23,000	10,048	14,753,958	5,986,467	8,767,491
23,001 - 24,000	9,761	14,868,465	5,852,214	9,016,251
24,001 - 25,000	9,139	14,299,462	5,475,563	8,823,899
25,001 - 26,000	9,041	14,433,663	5,363,868	9,069,795
26,001 - 27,000	8,479	13,890,069	5,010,606	8,879,463
27,001 - 28,000	8,255	13,728,348	4,895,123	8,833,225
28,001 - 29,000	7,855	13,409,807	4,651,887	8,757,920
29,001 - 30,000	7,546	13,101,312	4,434,849	8,666,463
30,001 - 35,000	32,544	60,589,568	18,739,534	41,850,034
35,001 - 40,000	23,341	48,581,836	13,593,236	34,988,600
40,001 - 45,000	16,800	38,418,425	9,895,484	28,522,941
45,001 - 50,000	11,824	29,840,169	7,132,813	22,707,356
Over 50,000	<u>26,531</u>	<u>83,970,621</u>	<u>16,677,698</u>	<u>67,292,923</u>
Totals	364,231	\$587,775,734	\$220,131,973	\$367,643,761

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 19
Distribution of General Property Tax Credits by Household Income
Individual Income Tax, 2000

<u>Household Income</u>	<u>Number of Returns</u>	<u>Property Tax Paid</u>	<u>Property Tax Credit</u>	<u>Property Tax Paid After Credit</u>
\$1,000 and below	10,703	\$19,289,674	\$7,646,301	\$11,643,373
1,001 - 2,000	3,797	3,355,687	1,743,597	1,612,090
2,001 - 3,000	5,636	4,813,906	2,292,482	2,521,424
3,001 - 4,000	8,151	6,481,239	3,024,707	3,456,532
4,001 - 5,000	10,847	8,532,413	3,830,318	4,702,095
5,001 - 6,000	14,106	11,679,292	4,955,145	6,724,147
6,001 - 7,000	20,468	17,102,061	7,016,839	10,085,222
7,001 - 8,000	18,596	16,390,048	6,510,909	9,879,139
8,001 - 9,000	19,248	17,649,529	6,826,632	10,822,897
9,001 - 10,000	20,926	20,240,556	7,491,698	12,748,858
10,001 - 11,000	20,446	20,258,837	7,282,228	12,976,609
11,001 - 12,000	20,572	21,261,773	7,233,362	14,028,411
12,001 - 13,000	20,348	21,157,248	7,116,613	14,040,635
13,001 - 14,000	20,215	21,251,441	6,886,197	14,365,244
14,001 - 15,000	19,759	21,381,389	6,674,950	14,706,439
15,001 - 16,000	19,736	21,844,440	6,564,650	15,279,790
16,001 - 17,000	19,773	22,214,932	6,442,460	15,772,472
17,001 - 18,000	19,440	22,693,429	6,320,749	16,372,680
18,001 - 19,000	19,532	23,269,450	6,246,933	17,022,517
19,001 - 20,000	18,885	23,035,782	5,944,397	17,091,385
20,001 - 21,000	18,435	23,160,560	5,873,109	17,287,451
21,001 - 22,000	18,159	23,367,660	5,690,130	17,677,530
22,001 - 23,000	17,544	22,988,745	5,434,639	17,554,106
23,001 - 24,000	16,885	22,665,562	5,177,361	17,488,201
24,001 - 25,000	15,963	22,289,863	4,957,298	17,332,565
25,001 - 26,000	15,731	22,564,824	4,873,615	17,691,209
26,001 - 27,000	14,816	21,862,448	4,589,019	17,273,429
27,001 - 28,000	14,247	21,255,639	4,421,574	16,834,065
28,001 - 29,000	13,510	20,722,030	4,227,474	16,494,556
29,001 - 30,000	13,279	21,031,375	4,116,275	16,915,100
30,001 - 35,000	57,352	97,428,364	18,109,769	79,318,595
35,001 - 40,000	44,830	85,448,250	14,767,918	70,680,332
40,001 - 45,000	34,510	73,654,125	11,898,997	61,755,128
45,001 - 50,000	27,337	64,434,991	10,007,141	54,427,850
Over 50,000	<u>89,333</u>	<u>269,864,608</u>	<u>34,216,078</u>	<u>235,648,530</u>
Totals	743,115	\$1,156,642,171	\$256,411,564	\$900,230,607

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 20
Distribution of Home Heating Credits by Household Income
Individual Income Tax, 2000

<u>Household Income</u>	<u>Senior Citizens</u>		<u>General</u>		<u>Disabled⁽¹⁾</u>		<u>Veterans</u>	
	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>
\$ 1,000 and below	804	\$455,393	8,179	\$3,669,123	145	\$72,561	5	\$688
1,001 - 2,000	213	88,846	3,941	1,343,001	61	25,948	2	765
2,001 - 3,000	405	152,742	5,661	1,789,677	84	30,315	1	386
3,001 - 4,000	924	311,001	8,109	2,351,314	222	65,935	3	948
4,001 - 5,000	1,941	563,006	10,873	2,887,653	443	117,863	5	678
5,001 - 6,000	4,119	1,027,339	15,381	3,600,236	1,398	296,740	24	5,150
6,001 - 7,000	11,705	2,388,847	30,942	6,074,971	8,199	1,424,218	132	24,610
7,001 - 8,000	8,464	1,514,056	19,817	3,653,291	1,932	336,046	57	10,815
8,001 - 9,000	10,095	1,524,181	19,551	3,198,510	1,840	289,575	75	10,255
9,001 - 10,000	10,405	1,363,976	17,485	3,221,022	1,897	314,600	74	10,347
Over 10,000	30,091	2,833,940	76,125	11,274,534	5,319	793,184	323	38,873
Totals	79,166	\$12,223,327	216,064	\$43,063,332	21,540	\$3,766,985	701	\$103,515
Average Credit		\$154.40		\$199.31		\$174.88		\$147.67

⁽¹⁾Includes blind, blind/deaf, paraplegic, quadriplegic, and totally disabled persons.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 21
2000 Income Tax Collections by County

<u>County</u>	<u>Property Tax Credits</u>	<u>Home Heating Credits</u>	<u>Tax After Credits</u>	<u>Percent of Total Tax</u>
ALCONA	\$280,988	\$132,450	\$3,186,542	0.1%
ALGER	203,820	94,250	3,327,346	0.1%
ALLEGAN	4,065,471	448,066	49,348,373	0.8%
ALPENA	1,103,148	335,358	13,144,569	0.2%
ANTRIM	1,012,739	167,289	11,150,825	0.2%
ARENA C	787,244	212,108	4,607,847	0.1%
BARA GA	167,506	66,312	2,520,046	0.0%
BARRY	1,525,714	202,567	27,469,952	0.4%
BA Y	5,768,210	757,925	54,790,498	0.9%
BENZIE	506,690	108,508	6,183,580	0.1%
BERRIEN	6,494,344	1,329,278	83,850,400	1.3%
BRANCH	1,842,620	297,867	17,131,064	0.3%
CALHOUN	6,616,414	975,485	61,688,361	1.0%
CASS	1,938,963	294,103	18,009,667	0.3%
CHARLEVOIX	1,148,084	174,867	15,391,945	0.2%
CHEBOYGAN	715,002	255,250	9,634,026	0.2%
CHIPPEWA	882,034	310,997	11,789,670	0.2%
CLARE	767,696	414,410	10,058,680	0.2%
CLINTON	2,558,906	202,804	31,408,368	0.5%
CRAWFORD	335,211	119,153	3,700,271	0.1%
DELTA	1,112,358	361,360	17,303,989	0.3%
DICKINSON	1,069,310	196,319	14,025,388	0.2%
EATON	5,678,629	396,402	66,412,016	1.1%
EMMET	1,456,521	194,154	21,002,638	0.3%
GENESEE	14,716,551	2,996,061	246,486,269	3.9%
GLADWIN	1,010,196	297,751	8,328,332	0.1%
GOGEBIC	442,251	212,860	4,870,304	0.1%
GRAND TRAVERSE	4,363,704	310,707	52,839,645	0.8%
GRATIOT	2,024,489	343,911	16,373,379	0.3%
HILLSDALE	1,834,519	425,216	20,246,297	0.3%
HOUGHTON	755,285	321,919	11,770,426	0.2%
HURON	4,681,681	436,668	12,383,930	0.2%
INGHAM	16,428,956	1,411,397	157,250,229	2.5%
IONIA	2,127,263	318,563	28,116,485	0.4%
IOSCO	980,065	319,266	8,281,501	0.1%
IRON	464,084	158,486	3,590,729	0.1%
ISABELLA	2,489,172	308,600	40,476,796	0.6%
JACKSON	5,390,465	795,611	83,722,147	1.3%
KALAMAZOO	10,962,852	1,050,442	143,414,801	2.3%
KALKASKA	684,827	123,769	5,887,248	0.1%
KENT	24,302,725	2,368,722	390,980,441	6.2%
KEW EENA W	348,870	21,397	328,745	0.0%
LA KE	590,903	214,947	1,611,882	0.0%
LA PEER	3,115,948	314,707	53,162,806	0.8%

Exhibit 21 (cont.)

<u>County</u>	<u>Property Tax Credits</u>	<u>Home Heating Credits</u>	<u>Tax After Credits</u>	<u>Percent of Total Tax</u>
LEELANA U	1,165,983	68,313	9,709,174	0.2%
LENA WEE	\$5,619,297	\$444,016	\$49,248,765	0.8%
LIVINGSTON	5,216,767	194,739	104,674,376	1.7%
LUCE	393,701	75,878	1,848,823	0.0%
MACKINAC	655,446	109,195	4,709,665	0.1%
MACOMB	55,572,651	2,415,926	561,331,568	8.9%
MANISTEE	1,253,881	209,306	9,372,779	0.1%
MARQUETTE	1,868,711	372,772	28,173,487	0.4%
MASON	1,542,732	238,666	10,867,063	0.2%
MECOSTA	1,484,169	294,472	13,272,756	0.2%
MENOMINEE	1,016,371	257,161	9,613,073	0.2%
MIDLAND	2,901,318	378,521	59,242,014	0.9%
MISSAUKEE	1,045,589	135,191	3,373,856	0.1%
MONROE	6,337,102	483,213	81,033,673	1.3%
MONTCALM	2,977,582	555,080	24,261,780	0.4%
MONTMORENCY	673,912	131,511	2,567,291	0.0%
MUSKEGON	6,702,206	1,353,965	74,546,831	1.2%
NEWAYGO	2,056,601	361,265	15,770,739	0.3%
OAKLAND	82,589,392	2,663,703	1,309,698,867	20.8%
OCEANA	1,605,002	261,178	8,897,358	0.1%
OGEMAW	1,302,022	305,225	6,206,742	0.1%
ONTONAGON	749,296	89,470	1,898,653	0.0%
OSCEOLA	1,385,166	317,031	8,268,832	0.1%
OSCODA	735,479	91,367	1,268,977	0.0%
OTSEGO	1,121,092	131,422	9,791,814	0.2%
OTTAWA	10,534,957	558,009	169,711,845	2.7%
PRESQUE ISLE	1,039,156	207,693	4,201,930	0.1%
ROSCOMMON	1,462,011	293,910	7,408,861	0.1%
SAGINAW	8,364,844	1,707,789	101,721,941	1.6%
ST. CLAIR	8,859,318	805,193	100,839,928	1.6%
ST. JOSEPH	2,946,831	371,115	26,592,008	0.4%
SANILAC	3,495,583	462,295	16,220,657	0.3%
SCHOOLCRAFT	792,775	112,787	2,700,363	0.0%
SHIAWASSEE	3,832,539	415,457	37,693,266	0.6%
TUSCOLA	5,004,644	440,245	23,827,369	0.4%
VAN BUREN	4,221,574	621,169	35,338,465	0.6%
WASHTENAW	22,757,516	790,328	279,435,632	4.4%
WAYNE (excludes Detroit)	71,820,637	3,830,874	668,345,220	10.6%
WEXFORD	1,993,813	299,678	12,277,950	0.2%
OUTSIDE OF MICHIGAN	4,997,109	433,410	177,450,192	2.8%
DETROIT	<u>58,477,521</u>	<u>15,070,339</u>	<u>364,931,597</u>	<u>5.8%</u>
	\$544,324,724	\$59,157,159	\$6,285,604,633	100.0%

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 22

2000 Income Tax Data by County

County	2000	2000	Income Tax		Average		Average		Credits as a		Ratio of Property	
	AGI	Average	Before	Rank	Income Tax	Rank	Income Tax	Rank	% of Tax	Rank	to 1040s Filed	Rank
	(Millions)	AGI	Credits		Before	Credits	After		Before	Rank		
ALCONA	\$155.6	\$32,095	\$3,659,310	75	\$755	80	\$657	74	12.9%	39	18.5%	80
ALGER	131.5	33,101	3,680,860	74	926	60	837	55	9.6%	62	17.0%	83
ALLEGAN	1,680.7	40,899	54,329,800	24	1,322	24	1,201	24	9.2%	67	21.6%	67
ALPENA	502.1	35,608	14,829,325	47	1,052	47	932	42	11.4%	48	24.8%	47
ANTRIM	442.5	43,017	12,460,407	52	1,211	31	1,084	31	10.5%	55	22.6%	58
ARENA C	207.5	31,052	5,682,781	68	851	70	690	71	18.9%	14	26.1%	40
BARAGA	101.0	32,917	2,806,312	78	914	63	821	57	10.2%	59	17.8%	82
BARRY	913.0	43,716	29,512,901	32	1,413	20	1,315	15	6.9%	81	18.8%	79
BAY	2,005.1	39,335	62,067,522	20	1,218	30	1,075	32	11.7%	46	27.7%	30
BENZIE	249.0	35,597	6,914,819	65	989	54	884	48	10.6%	54	20.7%	72
BERRIEN	2,978.3	39,980	93,468,992	14	1,255	26	1,126	26	10.3%	57	24.2%	51
BRA NCH	639.2	34,458	19,516,576	39	1,052	46	924	44	12.2%	43	21.9%	63
CALHOUN	2,325.7	38,735	70,891,103	18	1,181	34	1,027	35	13.0%	38	27.4%	32
CASS	681.8	37,914	20,936,902	37	1,164	36	1,001	37	14.0%	28	21.3%	70
CHARLEVOIX	552.9	43,466	16,911,397	44	1,330	23	1,210	23	9.0%	69	22.9%	56
CHEBOYGAN	383.3	34,360	10,738,774	59	963	58	864	53	10.3%	58	20.1%	75
CHIPPEWA	476.5	32,052	13,295,846	49	894	66	793	61	11.3%	49	19.7%	77
CLARE	419.0	30,805	11,433,355	53	841	71	739	66	12.0%	44	19.5%	78
CLINTON	1,076.9	45,675	34,589,020	28	1,467	15	1,332	13	9.2%	65	23.3%	55
CRAW FORD	158.5	31,911	4,260,301	73	858	68	745	64	13.1%	34	22.6%	59
DELTA	636.8	36,359	19,101,895	40	1,091	41	988	38	9.4%	63	20.5%	73
DICKINSON	507.7	40,207	15,460,657	45	1,225	28	1,111	27	9.3%	64	23.9%	52
EATON	2,310.2	44,437	73,616,455	17	1,416	18	1,277	17	9.8%	61	25.8%	41
EMMET	715.5	46,187	22,954,254	36	1,482	12	1,356	12	8.5%	73	23.8%	54
GENESEE	8,596.0	43,540	268,241,304	6	1,359	21	1,248	21	8.1%	76	22.7%	57
GLADWIN	370.4	33,276	9,820,058	61	882	67	748	63	15.2%	22	26.6%	36
GOGEBIC	208.4	29,905	5,708,968	67	819	74	699	70	14.7%	26	23.8%	53
GRAND TRAVERSE	1,830.2	44,563	58,152,883	21	1,416	19	1,287	16	9.1%	68	25.8%	42
GRATIOT	619.3	34,929	18,828,758	41	1,062	43	923	45	13.0%	37	21.6%	66
HILLSDALE	745.3	36,266	22,989,680	35	1,119	39	985	40	11.9%	45	21.3%	69
HOUGHTON	457.2	31,796	13,171,491	50	916	62	819	58	10.6%	53	18.2%	81
HURON	595.0	33,862	17,223,160	43	980	55	705	68	28.1%	5	32.8%	14
INGHAM	5,526.9	44,705	179,180,019	8	1,449	17	1,272	19	12.2%	42	31.8%	16
IONIA	984.7	38,186	30,960,965	29	1,201	33	1,090	29	9.2%	66	19.9%	76
IOSCO	392.9	31,192	9,742,037	62	773	79	657	73	15.0%	24	24.5%	50
IRON	164.0	29,632	4,309,339	72	779	78	649	75	16.7%	20	28.1%	27
ISABELLA	1,359.8	45,623	43,772,337	25	1,469	14	1,358	11	7.5%	77	20.8%	71
JACKSON	2,850.1	42,303	91,428,408	15	1,357	22	1,243	22	8.4%	74	21.7%	64
KALAMAZOO	4,827.2	46,874	157,310,281	9	1,528	11	1,393	10	8.8%	72	28.1%	28
KALKASKA	238.8	32,478	6,785,923	66	923	61	801	60	13.2%	33	26.4%	39
KENT	12,607.6	48,472	426,072,290	4	1,638	7	1,503	6	8.2%	75	24.6%	49
KEW EENAW	28.8	32,722	715,269	83	813	75	374	83	54.0%	1	94.4%	1
LAKE	97.9	27,486	2,481,398	80	697	81	453	81	35.0%	3	46.5%	5
LAPEER	1,746.1	47,674	57,261,184	22	1,563	9	1,452	9	7.2%	80	20.3%	74

Exhibit 22 (cont.)

<u>County</u>	2000	2000	Income Tax		Average		Average		Credits as a		Ratio of Property	
	AGI	Average	Before	Rank	Income Tax	Rank	Income Tax	Rank	% of Tax	Rank	to 1040s Filed	Rank
	(Millions)	AGI	Credits		Before	Credits	After		Before	Credits		
LEELANA U	\$379.1	\$49,450	\$11,123,824	55	1,451	16	\$1,267	20	12.7%	40	31.4%	19
LENA WEE	1,797.5	41,482	56,842,547	23	1,312	25	1,137	25	13.4%	32	25.4%	44
LIVINGSTON	3,222.0	60,835	111,010,958	12	2,096	3	1,976	3	5.7%	83	21.5%	68
LUCE	85.4	32,776	2,350,785	81	902	65	710	67	21.4%	11	40.5%	7
MACKINAC	193.1	33,967	5,550,087	70	976	56	828	56	15.1%	23	30.7%	22
MACOMB	18,919.0	49,091	626,844,335	3	1,627	8	1,457	8	10.5%	56	29.7%	25
MANISTEE	381.6	35,395	11,018,410	57	1,022	49	869	50	14.9%	25	31.0%	21
MARQUETTE	1,031.3	37,305	30,947,164	30	1,119	38	1,019	36	9.0%	70	22.0%	62
MASON	433.8	34,523	12,829,234	51	1,021	50	865	52	15.3%	21	31.5%	18
MECOSTA	533.3	35,389	15,384,495	46	1,021	51	881	49	13.7%	29	25.1%	45
MENOMINEE	387.4	35,720	11,113,398	56	1,025	48	886	47	13.5%	31	26.4%	37
MIDLAND	1,951.6	53,745	63,377,578	19	1,745	4	1,631	4	6.5%	82	21.7%	65
MISSAUKEE	163.2	30,599	4,570,268	71	857	69	633	76	26.2%	6	41.6%	6
MONROE	3,027.3	47,563	98,072,821	13	1,541	10	1,273	18	17.4%	18	22.5%	60
MONTCALM	910.7	34,274	28,051,315	34	1,056	45	913	46	13.5%	30	25.7%	43
MONTMORENCY	149.8	30,149	3,432,158	77	691	82	517	80	25.2%	8	36.9%	9
MUSKEGON	2,693.0	37,339	84,406,693	16	1,170	35	1,034	34	11.7%	47	26.4%	38
NEWAYGO	612.1	35,987	18,462,803	42	1,085	42	927	43	14.6%	27	28.0%	29
OAKLAND	40,007.0	73,194	1,411,271,021	1	2,582	1	2,396	1	7.2%	79	27.2%	34
OCEANA	373.7	32,987	10,911,099	58	963	57	785	62	18.5%	16	32.3%	15
OGEMAW	294.3	31,220	7,919,838	64	840	72	658	72	21.6%	10	35.6%	10
ONTONAGON	102.0	30,132	2,784,023	79	822	73	561	79	31.8%	4	53.3%	3
OSCEOLA	343.2	30,875	10,123,373	60	911	64	744	65	18.3%	17	30.6%	23
OSCODA	86.2	27,356	2,141,308	82	680	83	403	82	40.7%	2	56.4%	2
OTSEGO	380.7	38,311	11,189,806	54	1,126	37	985	39	12.5%	41	29.8%	24
OTTAWA	5,464.2	50,234	183,060,445	7	1,683	5	1,560	5	7.3%	78	22.4%	61
PRESQUE ISLE	214.0	31,031	5,561,599	69	807	76	609	78	24.4%	9	37.5%	8
ROSCOMMON	379.0	32,142	9,347,270	63	793	77	628	77	20.7%	12	33.7%	12
SAGINAW	3,712.8	40,451	113,934,353	10	1,241	27	1,108	28	10.7%	52	24.7%	48
ST. CLAIR	3,453.1	45,369	112,267,578	11	1,475	13	1,325	14	10.2%	60	27.3%	33
ST. JOSEPH	997.2	36,400	30,598,072	31	1,117	40	971	41	13.1%	36	24.9%	46
SANILAC	678.0	34,052	20,245,983	38	1,017	52	815	59	19.9%	13	32.8%	13
SCHOOLCRAFT	128.8	33,478	3,650,915	76	949	59	702	69	26.0%	7	51.2%	4
SHIAWASSEE	1,363.0	39,347	42,390,807	26	1,224	29	1,088	30	11.1%	51	27.1%	35
TUSCOLA	985.4	35,789	29,220,969	33	1,061	44	865	51	18.5%	15	27.6%	31
VAN BUREN	1,285.9	38,044	40,670,642	27	1,203	32	1,046	33	13.1%	35	29.4%	26
WASHTENAW	8,860.2	63,345	306,847,522	5	2,194	2	1,998	2	8.9%	71	31.3%	20
WAYNE (including Detroit)	37,846.2	44,388	1,212,131,346	2	1,422	6	1,212	7	14.8%	50	34.5%	17
WEXFORD	490.5	33,781	14,763,255	48	1,017	53	846	54	16.8%	19	34.6%	11
OUTSIDE OF MICHIGAN	26,901.4	178,055	189,573,333		1,255		1,175		6.4%		7.5%	
DETROIT	14,829.2	36,816	458,554,649		1,138		906		20.4%		37.8%	
TOTALS	\$235,714.6	\$52,247	7,013,268,743		\$1,555		\$1,393		10.4%		27.2%	

⁽¹⁾Includes credits for blind/deaf, paraplegic, quadriplegic, and totally disabled persons.

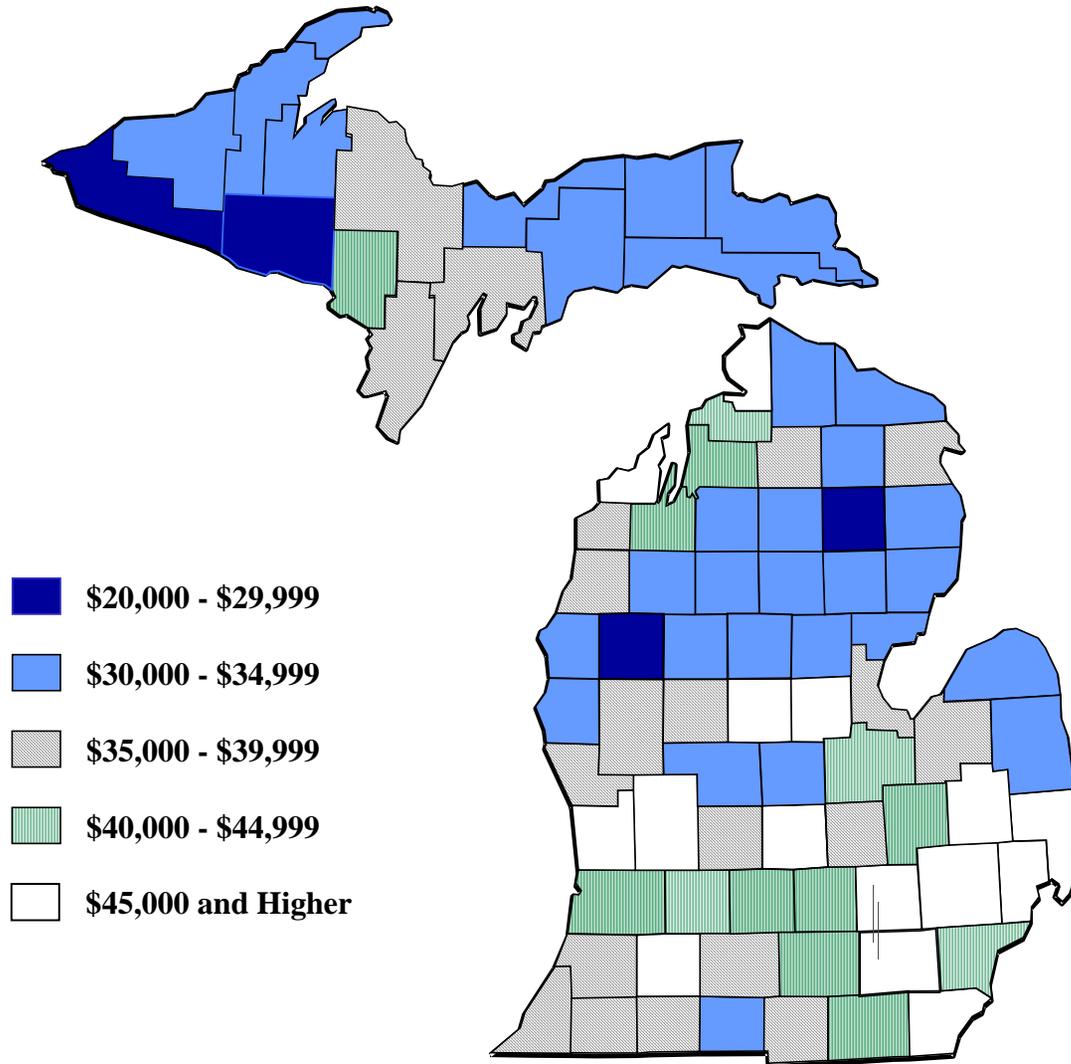
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 23
Average Annual Individual Income Tax Rates

<u>Year</u>	<u>Rate</u>
1968	2.60%
1969	2.60%
1970	2.60%
1971	3.14%
1972	3.90%
1973	3.90%
1974	3.90%
1975	4.37%
1976	4.60%
1977	4.60%
1978	4.60%
1979	4.60%
1980	4.60%
1981	4.60%
1982	5.10%
1983	6.35%
1984	5.85%
1985	5.33%
1986	4.60%
1987	4.60%
1988	4.60%
1989	4.60%
1990	4.60%
1991	4.60%
1992	4.60%
1993	4.60%
1994	4.47%
1995	4.40%
1996	4.40%
1997	4.40%
1998	4.40%
1999	4.40%
2000	4.20%
2001	4.20%
2002	4.10%

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 24
Average Adjusted Gross Income by County
2000



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 26
Growth in Michigan Income
1999 – 2000
(thousands)

	<u>1999</u>	<u>2000</u>	<u>Percentage Change</u>
Labor Earnings			
Wage and salary disbursements	\$166,743,834	\$175,680,237	5.4%
Other labor income	19,389,453	19,918,856	2.7%
Proprietors' income	<u>16,644,711</u>	<u>17,129,612</u>	2.9%
Total labor earnings	<u>\$202,777,998</u>	<u>\$212,728,705</u>	4.9%
Adjustments			
Personal contributions for social insurance	-\$12,469,986	-\$12,914,339	3.6%
Adjustment for residence	<u>859,770</u>	<u>960,078</u>	11.7%
Total adjustments	<u>-\$11,610,216</u>	<u>-\$11,954,261</u>	
Net Michigan labor earnings	\$191,167,782	\$200,774,444	5.0%
Dividends, interest, and rent	\$47,261,550	\$50,767,414	7.4%
Transfer payments	<u>37,240,523</u>	<u>38,327,441</u>	2.9%
Michigan Personal Income	\$275,669,855	\$289,869,299	5.2%

Source: Bureau of Economic Analysis, U.S. Department of Commerce.